

HESAI GROUP

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Hesai Group:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hesai Group and its subsidiaries (the “Company”), as of December 31, 2023 and 2024, the related consolidated statements of operations and comprehensive loss, changes in shareholders’ (deficit) equity, and cash flows for each of the three years in the period ended December 31, 2024, the related notes and the financial statements schedule included in Schedule I (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2024, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Convenience Translation

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such United States dollar amounts are presented solely for the convenience of readers outside the People’s Republic of China.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, the People’s Republic of China

April 1, 2025

We have served as the Company’s auditor since 2019.

HESAI GROUP

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2023 and 2024

(Amounts in thousands, except share and per share data and otherwise noted)

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$ (Note 2)
ASSETS			
Current assets:			
Cash and cash equivalents	1,554,583	2,838,966	388,937
Restricted cash	3,541	3,594	492
Short-term investments	1,586,005	362,195	49,621
Notes receivable	—	22,341	3,061
Accounts receivable, net (net of allowance of RMB49,132 and RMB54,972 as of December 31, 2023 and 2024, respectively)	524,818	765,027	104,808
Contract assets, net (net of allowance of RMB122 and RMB9,901 as of December 31, 2023 and 2024, respectively)	19,688	9,909	1,358
Amounts due from related parties	5,015	5,039	690
Inventories	495,877	482,137	66,052
Prepayments and other current assets, net	208,082	193,448	26,502
Total current assets	4,397,609	4,682,656	641,521
Property and equipment, net	871,611	944,218	129,357
Intangible assets, net	78,730	76,554	10,488
Land-use rights, net	40,743	39,879	5,463
Long-term investments	31,811	31,798	4,356
Operating lease right-of-use assets	151,871	114,260	15,654
Other non-current assets	90,168	100,246	13,734
Total non-current assets	1,264,934	1,306,955	179,052
TOTAL ASSETS	5,662,543	5,989,611	820,573
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	111,682	345,253	47,299
Notes payable	7,255	10,096	1,383
Accounts payable	269,439	345,011	47,266
Contract liabilities	79,925	32,994	4,520
Amounts due to related parties	340,051	335,253	45,929
Accrued warranty liability	28,425	43,607	5,974
Accrued expenses and other current liabilities	498,324	516,726	70,791
Total current liabilities	1,335,101	1,628,940	223,162
Operating lease liabilities	119,413	98,370	13,477
Long-term borrowings	285,898	269,438	36,913
Other non-current liabilities	59,813	61,132	8,375
Total non-current liabilities	465,124	428,940	58,765
TOTAL LIABILITIES	1,800,225	2,057,880	281,927
Commitments and contingencies (Note 26)			
Shareholders' equity			
Class A Ordinary shares (US\$0.0001 par value, 50,000,000 shares authorized, 30,033,379 and 30,015,905 shares issued and outstanding as of December 31, 2023 and 2024, respectively)	19	19	3
Class B Ordinary shares (US\$0.0001 par value, 900,000,000 shares authorized, 99,626,332 and 101,143,806 shares issued, 96,995,110 and 101,143,806 shares outstanding as of December 31, 2023 and 2024, respectively)	67	70	10
Additional paid-in capital	7,423,862	7,577,113	1,038,060
Subscription receivables	(292,721)	(292,721)	(40,103)
Accumulated other comprehensive income	38,440	56,975	7,806
Accumulated deficit	(3,307,349)	(3,409,725)	(467,130)
Total Shareholders' equity	3,862,318	3,931,731	538,646
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,662,543	5,989,611	820,573

The accompanying notes are an integral part of these consolidated financial statements.

HESAI GROUP

**CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2023 and 2024**
(Amounts in thousands, except share and per share data and otherwise noted)

	Year ended December 31,			
	2022	2023	2024	US\$
	RMB	RMB	RMB	(Note 2)
Net revenues	1,202,670	1,876,989	2,077,157	284,569
Cost of revenues	(730,683)	(1,215,611)	(1,192,572)	(163,382)
Gross Profit	471,987	661,378	884,585	121,187
Operating expenses:				
Sales and marketing expenses	(104,835)	(148,798)	(193,032)	(26,445)
General and administrative expenses	(201,007)	(320,144)	(316,913)	(43,417)
Research and development expenses	(555,179)	(790,547)	(855,641)	(117,222)
Other operating income, net	10,817	26,520	276,093	37,825
Total operating expenses	(850,204)	(1,232,969)	(1,089,493)	(149,259)
Loss from operations	(378,217)	(571,591)	(204,908)	(28,072)
Interest income	58,734	99,813	104,401	14,303
Interest expenses	—	(3,069)	(12,827)	(1,757)
Foreign exchange gain (loss), net	20,858	(452)	14,577	1,997
Other (loss) income, net	(2,161)	34	(2,476)	(339)
Net loss before income tax and share of loss in equity method investments	(300,786)	(475,265)	(101,233)	(13,868)
Income tax benefits (expenses)	66	(658)	(1,130)	(155)
Share of loss in equity method investment	(45)	(45)	(13)	(2)
Net loss	(300,765)	(475,968)	(102,376)	(14,025)
Deemed dividend	(446,419)	—	—	—
Net loss attributable to ordinary shareholders of the Company	(747,184)	(475,968)	(102,376)	(14,025)
Net loss per share:				
Basic and diluted	(6.47)	(3.81)	(0.79)	(0.11)
Weighted average shares used in calculating net loss per share:				
Basic and diluted	115,534,593	124,783,013	129,188,125	129,188,125
Net loss	(300,765)	(475,968)	(102,376)	(14,025)
Other comprehensive (loss) income, net of tax of nil:				
Foreign currency translation adjustments	(12,073)	42,048	18,535	2,539
Comprehensive loss	(312,838)	(433,920)	(83,841)	(11,486)

The accompanying notes are an integral part of these consolidated financial statements.

HESAI GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIT) EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022, 2023 and 2024

(Amounts in thousands, except share and per share data and otherwise noted)

	Class A Ordinary shares		Class B Ordinary shares		Additional paid-in capital	Subscription receivables	Accumulated deficit	Accumulated other comprehensive income (loss)	Total Shareholders' (deficit) equity
	Number	RMB*	Number	RMB	RMB	RMB	RMB	RMB	RMB
Balance as of December 31, 2021	30,033,379	19	30,949,701	20	—	(310,227)	(2,188,947)	8,465	(2,490,670)
Net loss	—	—	—	—	—	—	(300,765)	—	(300,765)
Foreign currency translation	—	—	—	—	—	—	(12,073)	—	(12,073)
Share-based compensation	—	—	—	—	104,750	—	—	—	104,750
Accretion in redemption value of redeemable shares	—	—	—	—	(104,750)	—	(341,669)	—	(446,419)
Balance as of December 31, 2022	30,033,379	19	30,949,701	20	—	(310,227)	(2,831,381)	(3,608)	(3,145,177)
Net loss	—	—	—	—	—	—	(475,968)	—	(475,968)
Foreign currency translation	—	—	—	—	—	—	—	42,048	42,048
Share-based compensation	—	—	—	—	233,958	—	—	—	233,958
Issuance of ordinary shares for initial public offering ("IPO"), net of issuance cost of RMB117,774	—	—	10,125,118	7	1,193,290	—	—	—	1,193,297
Reclassification of redeemable shares to ordinary shares upon IPO	—	—	54,551,513	39	5,986,871	—	—	—	5,986,910
Issuance of ordinary shares upon the exercise of share options and vesting of restricted share units	—	—	1,368,778	1	9,743	—	—	—	9,744
Settlement of subscription receivables in connection the 2021 reorganization	—	—	—	—	—	17,506	—	—	17,506
Balance as of December 31, 2023	30,033,379	19	96,995,110	67	7,423,862	(292,721)	(3,307,349)	38,440	3,862,318
Net loss	—	—	—	—	—	—	(102,376)	—	(102,376)
Foreign currency translation	—	—	—	—	—	—	—	18,535	18,535
Share-based compensation	—	—	—	—	117,199	—	—	—	117,199
Issuance of ordinary shares upon the exercise of share options and vesting of restricted share units	—	—	4,131,222	3	36,052	—	—	—	36,055
Conversion of Class A Ordinary shares into Class B Ordinary shares	(17,474)	—	17,474	—	—	—	—	—	—
Balance as of December 31, 2024	30,015,905	19	101,143,806	70	7,577,113	(292,721)	(3,409,725)	56,975	3,931,731

*The amount less than RMB1 is rounded to zero

The accompanying notes are an integral part of these consolidated financial statements.

HESAI GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022, 2023 and 2024 (Amounts in thousands, except share and per share data and otherwise noted)

	Year ended December 31,			
	2022	2023	2024	US\$
	RMB	RMB	RMB	(Note 2)
Cash flows from operating activities:				
Net loss	(300,765)	(475,968)	(102,376)	(14,025)
<i>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</i>				
Depreciation and amortization	53,634	86,268	131,809	18,058
Share-based compensation	105,219	234,624	116,064	15,901
(Reversal of) provision for allowance for credit loss	(1,810)	43,004	15,619	2,140
Loss from disposal of property and equipment	369	—	1,885	258
Fair value change of short-term investments	4,878	(15,095)	(195)	(27)
Share of loss in equity method investee	45	45	13	2
Foreign exchange gain, net	(5,868)	(9)	(2,591)	(355)
Non-cash lease expenses	30,260	34,355	37,375	5,120
Inventory write-down	39,431	9,290	2,222	304
Gain from disposal of subsidiary	—	(6,129)	—	—
<i>Changes in operating assets and liabilities:</i>				
Notes receivable	—	—	(22,341)	(3,061)
Accounts receivable	(390,859)	(90,750)	(243,339)	(33,337)
Contract assets	134,244	(7,088)	—	—
Inventories	(305,553)	145,977	26,695	3,657
Prepayments and other current assets	(33,556)	(82,646)	17,002	2,329
Other non-current assets	2,883	(3,178)	2,173	298
Amounts due to related parties	—	—	(5,026)	(689)
Contract liabilities	(91,737)	39,545	(46,942)	(6,431)
Deferred tax liabilities	(27)	(35)	—	—
Accounts payable	128,863	61,529	75,012	10,277
Notes payable	—	—	2,841	389
Accrued expenses and other current liabilities	(41,074)	80,297	88,907	12,180
Operating leases liabilities	(30,103)	(34,595)	(33,758)	(4,625)
Other non-current liabilities	5,511	37,820	2,454	336
Net cash (used in) provided by operating activities	(696,015)	57,261	63,503	8,699
Cash flows from investing activities:				
Purchases of short-term investments	(5,586,764)	(5,100,868)	(2,548,575)	(349,153)
Maturity of short-term investments	6,978,764	4,479,302	3,775,809	517,284
Purchases of property and equipment	(231,210)	(406,748)	(259,541)	(35,557)

HESAI GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued) FOR THE YEARS ENDED DECEMBER 31, 2022, 2023 and 2024 (Amounts in thousands, except share and per share data and otherwise noted)

	Year ended December 31,			
	2022	2023	2024	US\$
	RMB	RMB	RMB	(Note 2)
Purchases of intangible assets	(9,180)	(7,925)	(11,817)	(1,619)
Proceeds from government subsidies after capital expenditure	—	15,893	—	—
Purchases of equity securities	(30,000)	—	—	—
Advances to a related party	(1,964)	—	—	—
Cash inflow from disposal of subsidiary	—	14,407	—	—
Cash outflow from acquisition of subsidiary, net of cash acquired of RMB571	—	(54,454)	—	—
Net cash provided by (used in) investing activities	1,119,646	(1,060,393)	955,876	130,955
Cash flows from financing activities:				
Cash distribution to shareholders of Shanghai Hesai in connection with the 2021 Reorganization	—	(17,506)	—	—
Cash contribution from shareholders in connection with the 2021 Reorganization	—	17,506	—	—
Proceeds from issuance of ordinary shares of Hesai Group	—	1,225,470	—	—
Proceeds from long-term borrowings	18,472	264,910	120,275	16,477
Repayment of long-term borrowings	—	—	(20,157)	(2,761)
Proceeds from short-term borrowings	—	111,682	234,100	32,072
Repayment of short-term borrowings	—	—	(117,682)	(16,122)
Payment of offering costs	(3,296)	(22,828)	—	—
Proceeds from issuance of ordinary shares upon the exercise of share options	—	2,872	34,139	4,677
Government subsidies received in advance of capital expenditure	—	8,250	—	—
Net cash provided by financing activities	15,176	1,590,356	250,675	34,343
Net increase in cash and cash equivalents	438,807	587,224	1,270,054	173,997
Cash, cash equivalents and restricted cash, beginning of the year	449,352	913,277	1,558,124	213,462
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	25,118	57,623	14,382	1,970
Cash, cash equivalents and restricted cash, end of the year	913,277	1,558,124	2,842,560	389,429
Cash paid during the year for:				
Income taxes	(1,230)	—	425	58
Interest (net of capitalized amount of RMB11, RMB4,433 and RMB1,511 for the years ended December 31, 2022, 2023 and 2024, respectively)	—	3,069	8,054	1,103
Supplemental disclosure of non-cash investing and financing activities:				
Accrued purchases of property and equipment	102,181	179,839	124,333	17,034
Accrued offering cost	480	—	—	—

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

Cash and cash equivalents	913,277	1,554,583	2,838,966	388,937
Restricted cash	—	3,541	3,594	492
Cash, cash equivalents and restricted cash	913,277	1,558,124	2,842,560	389,429

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

1. ORGANIZATION AND NATURE OF OPERATIONS

Description of Business and Corporate History

Hesai Group (the “Company”) was incorporated under the laws of the Cayman Islands on April 21, 2021. The Company, together with its subsidiaries (collectively, the “Group”) is primarily engaged in the development, manufacture and sales of 3-dimensional light detection and ranging solutions, or LiDAR.

History of the Group

The Group’s history began in October 2014 with the establishment of Shanghai Hesai Photonics Co., Ltd. (“Hesai Photonics”), a limited liability company established in the People’s Republic of China (the “PRC”) by Mr. Kai Sun, Mr. Yifan Li and Mr. Shaoqing Xiang (collectively known as the “Founding Shareholders”). In August 2020, Hesai Photonics was converted by its then shareholders into a joint stock company under the PRC law and changed its name to Hesai Technology Co., Ltd (“Shanghai Hesai”).

2021 Reorganization

In 2021, the Founding Shareholders and all of the investors of Shanghai Hesai undertook an equity restructuring in order to re-domicile its business from the PRC to the Cayman Islands (the “2021 Reorganization”), which was executed in the following steps:

- 1) In April 2021, the Company was incorporated in the Cayman Islands to be the holding company of the Group. On May 6, 2021, the Company established Hesai Hong Kong Limited (“Hesai HK”) in Hong Kong, a wholly owned subsidiary to be the intermediate holding company.
- 2) In June 2021, the Company through Hesai HK acquired 100% of the equity interest of Shanghai Hesai from the Founding Shareholders and its investors, thus Shanghai Hesai became the wholly owned subsidiary of the Company.
- 3) In May and June 2021, the Founding Shareholders subscribed to 30,033,379 Class A ordinary shares and the existing investors subscribed to 62,834,548 Class B ordinary shares of the Company, on an as-converted basis, at the same proportion of the equity interest they held in Shanghai Hesai.

The main purpose of the 2021 Reorganization was to establish a Cayman Islands holding company for the existing business in preparation for an overseas initial public offering. The Group has accounted for the 2021 Reorganization as transaction between entities with common ownership, which is akin to a reorganization of entities under common control.

Pursuant to a framework agreement entered into by the Founding Shareholders and all of the investors of Shanghai Hesai, the consideration paid by the Company to acquire the equity interest of Shanghai Hesai is to be reinvested in the Company as capital contribution for subscription of ordinary shares at Hesai Group. For the recapitalization in connection with the 2021 Reorganization, only RMB817,847 was required to be settled through cash redemption by Shanghai Hesai and cash investment at the Company level in accordance with foreign currency control regulations within the PRC. RMB507,620 has been settled during 2021 and RMB17,506 has been settled during 2023 with the remaining of RMB292,721 recorded as subscription receivables as of December 31, 2024 pending relevant government approval (Note 22).

Initial Public Offering (“IPO”)

In February and March 2023, the Group, in connection with its IPO in the United States, issued 10,125,118 Class B ordinary shares with net proceeds of US\$179,786 (equivalent to RMB1,225,470).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis of Consolidation

The financial statements presented herein represent the consolidated financial statements of the Company and its subsidiaries. All transactions and balances among the Company and its subsidiaries have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Group's management reviews these estimates based on information that is currently available. Changes in facts and circumstances may cause the Group to revise its estimates. Significant accounting estimates reflected in the Group's consolidated financial statements mainly include the estimated project progress towards certain services revenue, warranty reserves, incremental borrowing rate of lease liabilities, inventory write-down, allowance for credit losses, the useful lives and impairment of property and equipment, right-of-use assets, intangible assets and land-use rights, valuation of ordinary shares and share-based compensation.

Fair value measurements

The established fair value hierarchy as defined by U.S. GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of inputs may be used to measure fair value include:

Level 1 Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

Level 2 Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

Level 3 Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Group's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Group's financial instruments include cash and cash equivalents, time deposits with maturities between three months and one year included in short-term investments, accounts receivable, notes receivable, contract assets, amounts due from/to related parties, other receivables included in other current assets, accounts payable, notes payable, other current liabilities, and short/long-term borrowings. All carrying amounts of these short-term financial instruments measured at amortized cost approximate their fair values due to their short-term nature. The fair value of long-term borrowings is approximate to their carry amounts because the annual interest rates of such borrowings are the similar to the prevailing market annual interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements – continued

The following table presents our assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

As of December 31, 2023

Description	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets	Other	Unobservable
	for Identical	Observable	Inputs (Level 3)
	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
	RMB	RMB	RMB
Short-term investments - structured financial products	—	857,924	—

As of December 31, 2024

Description	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets	Other	Unobservable
	for Identical	Observable	Inputs (Level 3)
	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
	RMB	RMB	RMB
Short-term investments - structured financial products	—	362,195	—

The structured financial products with commercial banks in the PRC are financial instruments with variable interest rates indexed mainly to exchange rates and/or price of commodities. In accordance with ASC 820, Fair Value Measurement, the Group elected the fair value option at the date of initial recognition to measure structured financial products at fair value on a recurring basis with changes in the fair value are recorded as interest income in the consolidated statements of operations and comprehensive loss. The fair values of these structured financial products were determined by using Level 2 significant other observable input by applying the interest rate implied by the current quotation of underlying indices. For the years ended December 31, 2022, 2023 and 2024, the Group recorded fair value changes of short-term investments of RMB52,252, RMB30,158 and RMB13,586 as interest income in the consolidated statements of operations and comprehensive loss, respectively.

Functional currency and foreign currency translation

The Group uses Renminbi (“RMB”) as its reporting currency. The functional currency of the Company and its subsidiaries located outside of PRC is the United States dollar (“US\$”), Swiss Franc (“CHF”), Hong Kong dollar, Euro and other currencies such as Thai Baht, the functional currency of subsidiaries located in PRC is RMB.

Assets and liabilities are translated from each entity’s functional currency to the reporting currency at the exchange rate on the balance sheet date. Equity amounts are translated at historical exchange rates, and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of accumulated other comprehensive income (loss) in the consolidated statements of changes in shareholders’ (deficit) equity.

Monetary assets and liabilities denominated in currencies other than the entity’s applicable functional currencies are translated into the functional currencies at the prevailing rates of exchange at the balance sheet date. Nonmonetary assets and liabilities are remeasured into the applicable functional currencies at historical exchange rates. Transactions in currencies other than the applicable functional currencies during the year are converted into the functional currencies at the applicable rates of exchange prevailing at the transaction dates. Transaction gains and losses are recognized as foreign exchange gain (loss), net in the consolidated statements of operations and comprehensive loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Group classifies cash on hand and cash in bank with original maturities of three months or less, and are unrestricted as to withdrawal or use, as cash and cash equivalents.

Restricted cash

Restricted cash mainly represents the Group's security deposits with respect to the Group's credit card account, withdrawal or use is contractually restricted of these cash balance.

Accounts receivable, net

Accounts receivable mainly consists of amount due from the Group's customers, which are recorded net of allowance for credit losses. The Group divides its portfolio into six pools — domestic PRC automotive original equipment manufacturer ("OEM") customers, domestic PRC other customers, overseas automotive OEM customers, overseas other customers, customers facing operational difficulties and other special customers for the purposes of performing ongoing credit evaluation by reviewing their credit rating and industry geographic distribution and assessing allowance for credit loss based on expected credit loss model for each pool of the portfolio. The Group develops a current expected credit loss ("CECL") model based on historical collection experience, the age of the accounts receivable balances, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. Account receivable balances are written off after all collection efforts have been exhausted.

Factoring arrangements

The Group entered into factoring agreements with third-party financial institutions. If the Group has transferred substantially all the risks and rewards of ownership of the receivables under the arrangement, the receivables are derecognized since the transaction qualify as a transfer of financial assets to be considered as a sale under ASC 860. In determining whether the Group has transferred substantially all the risks and rewards of ownership, it considers credit risk, late-payment risk and right of recourse. Arrangements in which the Group derecognizes receivables result in changes in trade receivables, which are reflected as cash flows from operating activities. When receivables are sold with limited recourse and substantially all the risks and rewards associated with these receivables are not transferred, receivables are not derecognized. Where the Group does not derecognize the receivables, the cash received from the factor is classified as a financing cash inflow, the settlement of the receivables as an operating cash inflow and the repayment to the factor as a financing cash outflow.

Inventories

Inventories consists of raw materials, work-in-process, and finished goods and are stated at lower of cost or net realizable value. Costs are computed under the weighted average method. Net realizable value is determined as estimated selling prices in the ordinary course of business, less reasonably predictable costs to sell. Valuation of inventories is based on currently available information about expected recoverable value. The estimate is dependent upon factors such as market trends, inventory ageing, and historical and forecasted customer demands. Inventory write-down is recorded as cost of revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and impairment. Property and equipment except land are depreciated at rates sufficient to write off its costs less impairment, if any, over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Buildings	20 years
Electronic equipment	3 – 5 years
Machinery and equipment	10 years
Furniture and fixture	5 years
Transportation vehicles	4 years
Leasehold improvements	Over the shorter of the expected lease term or useful lives

Land held by the Group in perpetuity is not depreciated and is stated at cost less impairment.

Interest expenses on outstanding debt are capitalized during the period of significant capital asset construction. Capitalized interest on construction in progress is included within Property, plant and equipment, net and is amortized over the life of the related assets.

Intangible assets, net

Intangible assets are recognized and measured at cost upon acquisition. Following the initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The identifiable intangible assets acquired are amortized on a straight-line basis over the respective useful lives as follows:

Software	3 – 10 years
Technology	3 – 8 years

Land-use rights, net

Land-use rights are recognized and measured at cost upon acquisition. Following the initial recognition, land-use rights are carried at cost less any accumulated amortization and any accumulated impairment losses. According to the land-use rights policy in the PRC, the useful life of land-use rights is 50 years.

Long-term investments

Investment in equity method investee

The Group uses equity method to account for common stock investments in entities over which it has significant influence but does not have controlling interests. Under the equity method of accounting, the Group's share of the earnings or losses of the investee companies, impairments, and other adjustments required by the equity method are reflected in the consolidated statements of operations and comprehensive loss. When the Group's share of losses in an investee equals or exceeds its carrying amount of the investment in the investee, the Group does not recognize further losses, unless the Group has guaranteed the obligations of the investee or is otherwise committed to provide further financial support for the investee. An impairment loss is recorded when there has been a loss in value of the investment that is other than temporary.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than temporary. The Group estimated the fair value of investments in equity investees under discounted cash flow analysis which requires significant judgments, including the estimation of future cash flows, which is dependent on internal forecasts, the estimation of long-term growth rate of a company's business, the estimation of the useful life over which cash flows will occur, and the determination of the weighted average cost of capital. The Group did not record any impairment on its equity method investment during the years ended December 31, 2022, 2023 and 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term investments - continued

Equity securities without readily determinable fair value

The Group has elected to measure the investment in equity securities without readily determinable fair value at cost minus impairment, if any, adjusted up or down for observable price changes. Any adjustment to the carrying amount is recorded in other income (loss), net. At each reporting period end, the Group makes a qualitative assessment considering impairment indicators to evaluate whether any of these investments is impaired. If the assessment indicates that the fair value of an investment is less than the carrying value, the investment in equity securities will be written down to its fair value, with the difference between the fair value of the investment and its carrying amount as an impairment loss. No fair value adjustment was recognized for the years ended December 31, 2022, 2023 and 2024.

Revenue recognition

The Group recognizes revenue from sales of LiDAR products and gas detection products at a point in time when control of the products is transferred to the customers, which generally occurs upon delivery according to the terms of the underlying contracts. Product sales to certain customers may require customer acceptance due to performance acceptance criteria that is considered more than a formality. For these product sales, revenue is recognized upon the expiration of the customer acceptance period. The Group's general terms and conditions for its contracts do not contain a right of return that allows the customer to return products and receive a credit, and therefore the Group does not estimate returns. The Group's standalone selling prices are based on the prices charged to customers for the single performance obligation which is transfer of control of products upon delivery to the customers or upon expiration of the customer acceptance period. Revenue is measured as the amount of consideration expect to receive in exchange for transferring the promised goods, adjusted for any variable consideration such as price concessions or annual price adjustments as estimated at contract inception. The Group estimate variable consideration at the most likely amount they will receive from customers and reduce revenues recognized accordingly. The Group includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Group estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of their anticipated performance and all information (historical, current and forecasted) that is reasonably available to the Group. The Group adjusts the estimate of revenue at the earlier of when the value of consideration they expect to receive changes or when the consideration becomes fixed. Amounts billed to customers for shipping and handling are included in revenue. Taxes collected from customers and remitted to governmental authorities are excluded from revenue on the net basis of accounting. Accounts receivables are due under normal trade terms, typically within 30 to 90 days.

During the fourth quarter of 2024, certain customers started to negotiate with the Group for sales rebates due to the change in market conditions. After such negotiation, the Group and these customers agreed to provide these customers sales rebates regarding the products previously sold in 2024. The Group recorded these rebates as reductions of revenue in the fourth quarter of 2024 and the amount involved was immaterial to the revenues for year ended December 31, 2024.

For LiDAR solution that the Group offers customers with a combination of hardware, software, deployment and professional services and engineering design, development and validation service projects, control of the goods and services may be transferred over time or at a point in time depending on the terms of the contract. Control of the goods and services is transferred over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. The Group recognizes revenue over time using an input method based on contract cost incurred to date compared to total estimated contract cost (cost-to-cost) as the services are provided. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition - continued

The Group typically provides standard product warranties on LiDARs. For LiDARs used in autonomous mobility sector, such warranties last one or two years. For those used in advanced driver assistance system sector, such warranties cover five years or 100 thousand kilometers, whichever comes first. Standard warranties are considered to be assurance type warranties and are not accounted for as separate performance obligations. The Group accrues estimated future warranty costs and charges to cost of revenues in the period that the related revenue is recognized. These estimates are based on historical warranty experience and any known or expected changes in warranty exposure, such as trends of product reliability and costs of repairing and replacing defective products. The Group also provides extended warranties as a service for an additional term ranging one to two additional years. For service type extended warranty contracts, the Group allocates revenue to this performance obligation on a relative standalone selling price basis and recognizes the revenue ratably over time during the effective period of the services. The Group recognized RMB7,702, RMB10,413 and RMB8,909 for extended warranty services, for the years ended December 31, 2022, 2023 and 2024, respectively.

Changes in the Group's accrued warranty liability was as follows:

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Balance as of the beginning of the year	13,932	17,694	28,425
Warranty provision	8,467	26,247	32,078
Consumption	(4,705)	(15,516)	(16,896)
Balance as of the end of the year	17,694	28,425	43,607

A contract asset is recorded when the Group has transferred products or services to the customer before payment is received or is due, and the Group's right to consideration is conditional on future performance in the contract. The Group records a contract asset for unbilled receivables for certain customers where the control of the goods or services has been transferred. A contract liability exists when the Group has received consideration but has not transferred the related goods or services to the customer. The Group's contract liabilities mainly consist of payments received from customers before they received the products.

Cost of revenues

Cost of revenues for our products includes the manufacturing cost of LiDAR sensors and gas detection products, which primarily consists of direct material costs, personnel-related costs, purchasing costs, depreciation, amortization and overhead associated with manufacturing operations, accrued warranty costs, shipping costs, licensing fees, and write-downs of excess inventories and obsolete inventories.

Cost of revenues for our services includes cost of LiDAR solution and direct labor costs and related material costs relating to the fulfillment of services.

Research and development expenses

Research and development expenses consist primarily of personnel-related costs directly associated with research and development organization, with the remainder being prototype expenses, third-party engineering and contractor costs, an allocated portion of facility and IT costs and depreciation. The Group's research and development costs are related to enhancing and developing additional functionality for its existing products and on new product development, including new releases and upgrades to LiDAR sensors. The Group expenses research and development costs as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants consist of cash subsidies received by the Group from PRC local governments. Grants received as incentives for conducting business in certain local districts with no performance obligation or other restriction as to the use are recognized when cash is received. Grants received with government specified performance obligations are recognized when all the obligations have been fulfilled. Government grants received related to the purchases of long-term assets are used to net the cost of the respective assets.

Loss per share

Basic loss per share is computed by dividing net loss attributable to the holders of ordinary shares by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. The Group had share options, which could potentially dilute basic earnings per ordinary share in the future. To calculate the number of shares for diluted earnings per ordinary share, the effect of the share options is computed using the treasury stock method.

Share-based compensation

The Group grants share-based awards of the Company to eligible employees and accounts for these share-based awards in accordance with ASC 718, Compensation - Stock Compensation.

Share-based awards that are subject to both the service period and the occurrence of a Qualified IPO as performance condition are measured at the grant date fair value and share-based compensation expenses are recognized for the cumulatively vested amount upon the completion of the Qualified IPO first and then over the remaining requisite service period, net of actual forfeitures, if any.

Share-based awards that are subject to only the service period are measured at the grant date fair value and share-based compensation expenses are recognized on a straight-line basis over the requisite service period of the individual grants. The Group recognizes share-based compensation expenses based on the target number of Class B ordinary shares that may be earned pursuant to the award. Forfeitures are recognized as reductions to share-based compensation when they occur.

Prior to IPO, the fair value of the share options granted to employees is determined with the assistance of an independent valuation specialist using widely accepted valuation techniques, including discounted cash flow analysis on the expected future free cash flows and binomial option pricing model.

The Group accounts for the effects of a modification as described in ASC 718. The Group calculates incremental compensation cost of a modification as the excess of the fair value of the modified option over the fair value of the original option immediately before its terms are modified. For vested options, the Group would recognize incremental compensation cost on the date of modification and for unvested options, the Group would recognize, prospectively and over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for

Share-based compensation with cash settlement features is classified as liabilities. The percentage of the fair value that is recorded as compensation cost at the end of each period is based on the percentage of the requisite service that has been rendered at that date. Changes in fair value of the liability classified award that occurs during the requisite service period are recognized as compensation costs ratably over time during the services to be rendered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities.

Deferred income taxes are provided using assets and liabilities method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are recognized to the extent that these assets are more likely than not to be realized. In making such a determination, the management consider all positive and negative evidence, including future reversals of projected future taxable income and results of recent operation. Deferred tax assets are then reduced by a valuation allowance through a charge to income tax expense when, in the opinion of management, it is more likely than not that a portion of or all of the deferred tax assets will not be realized.

The Group accounts for uncertainty in income taxes recognized in the financial statements by applying a two-step process to determine the amount of the benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained (defined as a likelihood of more than fifty percent of being sustained upon an audit, based on the technical merits of the tax position), the tax position is then assessed to determine the amount of benefits to recognize in the consolidated financial statements. The amount of the benefits that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement.

Interest and penalties on income taxes will be classified as a component of the provisions for income taxes. The Group did not recognize any income tax due to uncertain tax position or incur any interest and penalties related to potential underpaid income tax expenses for the years ended December 31, 2022, 2023 and 2024.

Leases

The Group leases office space in Shanghai, PRC and California, USA under non-cancellable operating lease agreements that expire at various dates through December 31, 2029.

The Group determines whether an arrangement constitutes a lease and records lease liabilities and right-of-use assets ("ROU assets") on its consolidated balance sheets at the lease commencement date. The Group measures the operating lease liabilities at the commencement date based on the present value of remaining lease payments over the lease term, which is computed using the Group's incremental borrowing rate, an estimated rate the Group would be required to pay for a collateralized borrowing equal to the total lease payments over the lease term. The Group measures the operating lease ROU assets based on the corresponding lease liability adjusted for payments made to the lessor at or before the commencement date, and initial direct costs it incurs under the lease. The Group begins recognizing operating lease expense based on lease payments on a straight-line basis over the lease term after the lessor makes the underlying asset available to the Group. Some of the Group's lease contracts include options to extend the leases for an additional period which has to be agreed with the lessors based on mutual negotiation. After considering the factors that create an economic incentive, the Group does not include renewal option periods in the lease term for which it is not reasonably certain to exercise.

Modification to existing lease agreements, including changes to the lease term or payment amounts, are reviewed to determine whether they result in a separate contract. For modifications that do not result in a separate contract, the Group reviews the lease classification and re-measures the related ROU assets and lease liabilities at the effective date of the modification. The Group recognize the amount of the remeasurement of the lease liabilities as an adjustment to the ROU assets. If the carrying amount of the ROU asset is reduced to zero, the Group will recognize the remaining amount of the remeasurement as operating expenses in the consolidated statements of operations and comprehensive loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of the Group during a period arising from transactions and other events and circumstances excluding transactions resulting from investments by shareholders and distributions to shareholders. Comprehensive income(loss) is reported in the consolidated statement of operations and comprehensive income(loss). Accumulated other comprehensive income (loss), as presented on the accompanying consolidated balance sheets consists of accumulated foreign currency translation adjustments.

Segment

The Chief Executive Officer, Chief Scientist and Chief Technology Officer (collectively referred to the “founders”) are identified as the chief operating decision maker (“CODM”).

The Group operates in one operating segment, which includes all activities related to the development, manufacturing, and delivery of LiDAR products. The determination of a single operating segment is consistent with the consolidated financial information regularly provided to the Group’s CODM.

As a single reportable segment entity, segment asset information is not used by the CODM to allocate resources. The measure used by CODM to assess performance and make operating decisions is net loss as reported on the Group’s consolidated statements of operations. The CODM uses performance measure to monitor budget versus actual results. See Note 18 for a description of the Group’s disaggregated revenues by product line and geographic location.

Further, the CODM reviews and utilizes cost of revenues which are presented in the Group’s consolidated statements to manage the Group’s operation. Additional disaggregated significant segment expenses that are not separately presented on the Group’s consolidated statements of operations, are presented below for disaggregated payroll expenses recorded in sales and marketing expenses, general and administrative expenses and research and development expenses which are independently reviewed by our CODM.

The following table presents the significant segment expenses and other segment items regularly reviewed by our CODM:

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Net Revenues	1,202,670	1,876,989	2,077,157
Less:			
Cost of revenues	730,683	1,215,611	1,192,572
Payroll expenses in sales and marketing expenses*	77,736	104,462	124,548
Payroll expenses in general and administrative expenses	126,986	175,600	146,239
Payroll expenses in research and development expenses	381,700	592,223	594,567
Other segment items**	632,749	265,061	121,607
Net loss	(747,184)	(475,968)	(102,376)

* Payroll expenses mainly consist of salaries, bonus, defined contribution plans, other social insurances, share-based compensation and other employee benefits.

** Other segment items primarily include other operating income, net, interest income, interest expenses and other (loss) income, net as reported in Group’s consolidated statements of operations and professional service expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of risks

Concentration of credit risk

Financial instruments that potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, contract assets, amount due from related parties, and prepayments and other current assets.

The Group places its cash and cash equivalents and short-term investments in various financial institutions in the PRC, Hong Kong Special Administrative Region, and the United States. The Group believes that no significant credit risk exists as all of the Group's cash and cash equivalents are held with financial institutions that Group's management believes to be high credit quality.

Accounts receivable and contract assets are typically unsecured and are derived from revenue earned from the customers. The Group conducts credit evaluations of customers to whom credit terms are extended. The Group establishes an allowance for credit losses based on CECL model developed by the Group, which considers historical collection experience, the age of the accounts receivable balances, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers.

Prepayments and other current assets mainly consist of deposits of rent, and prepaid expenses, which can be applied for deduction of future payments for expenses. The Group has no significant concentrations of credit risk with respect to its prepayments and other current assets.

Concentration of customers

The following customers accounted for 10% or more of revenue for the years ended December 31, 2022, 2023 and 2024:

	For the Year ended December 31,		
	2022	2023	2024
Customer A	24.3 %	25.6 %	33.7 %
Customer B	13.7 %	28.4 %	*
Customer D	*	*	14.1 %

The following customers accounted for 10% or more of the Group's accounts receivable, contract assets and amounts due from related parties as of December 31, 2023 and 2024:

	As of December 31,	
	2023	2024
Customer A	41.3 %	23.5 %
Customer B	10.2 %	*
Customer C	11.2 %	*
Customer D	*	16.8 %
Customer E	*	11.8 %

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of risks - continued

Concentration of suppliers

The Group has one supplier accounted for 10% or more of purchases for the years ended December 31, 2022, 2023 and 2024:

	For the Year ended December 31,		
	2022	2023	2024
Supplier A	12.3 %	*	*

Foreign currency risk

A significant portion of Group's cash and cash equivalents and short-term investments are denominated in US\$, fluctuations in exchange rates between US\$ and RMB may result in foreign exchange gains or losses. The value of US\$ is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. The Group has cash and cash equivalents that are denominated in US\$, totaling US\$131,832 and US\$295,881 as of December 31, 2023 and 2024, respectively.

Recent accounting pronouncements

Under the Jumpstart Our Business Startups Act of 2012, as amended ("the JOBS Act"), the Group meets the definition of an emerging growth company, or EGC as of December 31, 2024, and has elected the extended transition period for complying with new or revised accounting standards, which delays the adoption of these accounting standards until they would apply to private companies. Once the Group ceases to qualify as EGC, it will immediately adopt the new and revised accounting standards already effective for public companies. There are no recent accounting pronouncements which are expected to have a material effect on the Company's consolidated financial statements in the current or any future periods.

In November 2023, the FASB issued ASU 2023-07 "Segment Reporting (Topic 280)" ("ASU 2023-07"), which expands public entities' segment disclosures primarily by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The amendments are required to be applied retrospectively to all prior periods presented in an entity's financial statements. The Group adopted ASU 2023-07 for the year ended December 31, 2024.

Convenience translation

The Group's business is primarily conducted in China and most of its revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into US\$ using the then current exchange rates, for the convenience of the readers. Translations of balances in the consolidated balance sheet, consolidated statements of operations and comprehensive loss and consolidated statements of cash flows from RMB into US\$ as of and for the year ended December 31, 2024 are solely for the convenience of the readers and were calculated at the rate of US\$1.00=RMB7.2993 representing the noon buying rate set forth in the H.10 statistical release of the United States as of December 31, 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SHORT-TERM INVESTMENTS

The following table summarizes the Group's balances of short-term investments:

	As of December 31,	
	2023	2024
	RMB	RMB
Structured bank financial products	857,924	362,195
Time deposit	728,081	—
Total short-term investments	1,586,005	362,195

4. NOTES RECEIVABLE

Notes receivable consisted of bank acceptance notes of nil and RMB22,341 received from the Group's customers as of December 31, 2023 and 2024, respectively. These notes within 6 months maturity dates were issued by customers to pay their payable balances to the Group. No credit loss was recognized for the years ended December 31, 2023 and 2024.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable and expected credit losses as of December 31, 2023 and 2024 are as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Accounts receivable	573,950	819,999
Less: allowance for expected credit losses	(49,132)	(54,972)
Total accounts receivable, net	524,818	765,027

The roll-forward of the allowance for credit losses related to accounts receivable for the years ended December 31, 2023 and 2024 consists of the following activity:

	For the Year ended December 31,	
	2023	2024
	RMB	RMB
Balance at beginning of year	6,249	49,132
Provision for expected credit losses	42,883	5,840
Balance at end of year	49,132	54,972

6. INVENTORIES

	As of December 31,	
	2023	2024
	RMB	RMB
Raw materials	126,347	191,578
Work-in-process	199,153	225,726
Finished goods	170,377	64,833
Inventories	495,877	482,137

Inventory write-down was RMB39,431, RMB9,290 and RMB2,222, respectively, for the years ended December 31, 2022, 2023 and 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

7. PREPAYMENTS AND OTHER CURRENT ASSETS, NET

Prepayments and other current assets, as of December 31, 2023 and 2024 were as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Advances to suppliers	120,556	112,385
Deposits	22,042	11,033
Prepaid expenses	16,372	23,076
Value-added tax recoverable	21,888	28,468
Others	27,224	18,486
Total	208,082	193,448

8. PROPERTY AND EQUIPMENT, NET

Property and equipment, as of December 31, 2023 and 2024 are as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Cost		
Land	39,312	39,312
Buildings	—	342,673
Electronic equipment	114,237	139,418
Leasehold improvements	67,677	81,431
Machinery and equipment	186,890	350,483
Furniture and fixture	78,169	193,190
Transportation vehicles	5,400	6,487
Total cost	491,685	1,152,994
Less: Accumulated depreciation	(154,473)	(274,177)
Property and equipment, net	337,212	878,817
Construction in Progress	534,399	65,401
Total	871,611	944,218

The buildings as of December 31, 2024 represents the Group's new research, development and intelligent manufacturing center in Shanghai, PRC. The Group completed the construction of this center and put it into use in January 2024. Construction in progress as of December 31, 2024 represents the Group's renovation and upgrade of certain production line in Hertz factory. Depreciation expenses were RMB44,856, RMB77,701 and RMB116,953 for the years ended December 31, 2022, 2023 and 2024, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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9. INTANGIBLE ASSETS, NET

Intangible assets, as of December 31, 2023 and 2024 are as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Software	38,143	53,750
Technology	65,235	61,445
Total cost	103,378	115,195
Less: Accumulated amortization	(24,648)	(38,641)
Intangible assets, net	78,730	76,554

Amortization expenses related to intangible assets were RMB7,914, RMB7,704 and RMB13,993 for the years ended December 31, 2022, 2023 and 2024, respectively.

The estimated amortization expenses for each of the five succeeding fiscal years and thereafter are as follows:

	Years ended December 31,
	RMB
2025	12,317
2026	11,767
2027	11,767
2028	11,126
2029 and years after	29,577
Total	76,554

10. LAND-USE RIGHTS, NET

In March 2021, the Group acquired a land-use right at a total cost of RMB43,188 for approximately 26,615 square meters of land in Shanghai, the PRC for the construction of a factory. According to the land-use rights policy in the PRC, the Group has a 50-year use right over the land, and it is amortized over this period on a straight - line basis. The Group recorded amortization expenses of RMB864, RMB863, and RMB863 for the years ended December 31, 2022, 2023 and 2024, respectively. The weighted average remaining lease term was 46.19 years as of December 31, 2024.

11. LONG-TERM INVESTMENTS

	As of December 31,	
	2023	2024
	RMB	RMB
Investments in equity securities without readily determinable fair value	30,000	30,000
Investments in equity method investee	1,811	1,798
Total	31,811	31,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. OTHER NON-CURRENT ASSETS

Other non-current assets as of December 31, 2023 and 2024 are as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Prepayments for purchase of property and equipment	77,596	89,847
Demonstration fleet	3,819	3,521
Long-term deposits	8,612	6,111
Others	141	767
Other non-current assets	90,168	100,246

Long-term deposits mainly consist of rental deposit for offices and production capacity which will not be collectible within one year.

13. NOTES PAYABLE

The Group issued short-term notes payable to settle part of payments to the construction and raw material suppliers. As of December 31, 2023 and 2024, the remaining balance was RMB7,255 and RMB10,096, respectively.

14. BORROWINGS

The short-term and long-term borrowings as of December 31, 2023 and 2024 were as follows:

	As of December 31,	
	2023	2024
	RMB	RMB
Short-term borrowings:		
Short-term bank borrowings	109,900	148,800
Secured bank borrowings related to discounted notes receivable	—	80,000
Long-term bank borrowings, current portion	1,782	116,453
Total	111,682	345,253
Long-term borrowings:		
Long-term bank borrowings	285,898	269,438

Short-term bank borrowings

In November 2022, Shanghai Hesai entered into a short-term bank credit facility agreement for up to RMB300,000 with an annual interest rate of China's one-year loan prime rate ("LPR") minus 80 bps. The facility of RMB300,000 was expired on November 23, 2023. During the year ended December 31, 2023, the Group drew down RMB109,900 with an annual interest rate of 2.85% and a maturity date of January 16, 2024. During the year ended December 31, 2024, the Group repaid RMB109,900. The outstanding balance were RMB109,900 and nil as of December 31, 2023 and 2024, respectively.

In December 2023, Shanghai Hesai entered into a short-term bank credit facility agreement for up to RMB500,000 with an annual interest rate of China's one-year loan prime rate ("LPR") minus 80 bps. The facility of RMB500,000 will expire on December 12, 2024. During the year ended December 31, 2024, the Group drew down RMB154,800 with an annual interest rate range from 2.65% to 2.70%. The maturity dates ranged from January 31, 2025 to February 6, 2025. During the year ended December 31, 2024, the Group repaid RMB6,000. The outstanding balance were nil and RMB148,800 as of December 31, 2023 and 2024, respectively. The weighted average interest rate on borrowings under this agreement as of December 31, 2023 and 2024 was nil and 2.70%, respectively.

The Group has RMB351,200 unused short-term bank facility as of December 31, 2024.

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14. BORROWINGS (continued)

Secured bank borrowings related to discounted notes receivable

In July, August and December 2024, the Group factored certain intercompany notes receivable with a total face value of RMB80,000 to several domestic banks for total proceeds of RMB79,300 at effective interest rates ranging from 0.98% to 2.03%. As these factoring of notes receivables was with recourse, the transactions did not qualify as a transfer of financial assets and were recognized as secured bank borrowings included in short-term borrowings. The total intercompany notes receivable pledged for secured bank borrowings was nil and RMB80,000 as of December 31, 2023 and 2024, respectively.

Long-term bank borrowings

In November 2022, Shanghai Hesai entered into a two-year facility of RMB700,000 with an annual interest rate of China's LPR minus 100 bps. The facility will expire on December 4, 2024. The usage of credit facility is restricted to the purchasing of property and equipment for the production facility under construction in Jiading, Shanghai. The credit facility is secured by Shanghai Hesai's land-use rights and new research, development and intelligent manufacturing center with a total book value of RMB563,225 as of December 31, 2024. During the year ended December 31, 2023, Shanghai Hesai drew down RMB261,345. During the year ended December 31, 2024, Shanghai Hesai drew down RMB18,569. As of December 31, 2023, the outstanding balance was RMB279,817. As of December 31, 2024, the outstanding balance was RMB298,387 of which RMB89,516 will be repaid within one year and had been reclassified to short-term borrowings. The weighted average interest rate on borrowings under this agreement as of December 31, 2023 and 2024 was 2.65%. The maturity dates of the remaining long-term portion ranged from June 4, 2025 to December 3, 2027.

In October 2023, Zhejiang Hertz entered into a one-year facility of RMB110,000 with an annual interest rate of China's LPR minus 60 bps. The facility will expire on October 17, 2024. The usage of credit facility is restricted to the purchasing of property and equipment for Hertz factory in Hangzhou, Zhejiang, the borrowing was guaranteed by Shanghai Hesai. During the year ended December 31, 2023, Zhejiang Hertz drew down RMB5,347. During the year ended December 31, 2024, Zhejiang Hertz drew RMB70,069 and RMB21,542 was repaid. As of December 31, 2023, the outstanding balance was RMB5,347 of which RMB1,782 will be repaid within one year and had been reclassified to short-term borrowings. As of December 31, 2024, the outstanding balance was RMB53,874 of which RMB26,937 will be repaid within one year and had been reclassified to short-term borrowings. The weighted average interest rate on borrowings under this agreement as of December 31, 2023 and 2024 was 2.85% and 2.83%, respectively. The maturity dates of the remaining long-term portion ranged from April 17, 2025 to October 17, 2026.

In September 2024, Zhejiang Hertz entered into a five-year facility of RMB150,000 with an annual interest rate of 2.50% per annum. The facility will expire on September 17, 2029. The usage of credit facility is restricted to the purchasing of property and equipment for Hertz factory in Hangzhou, Zhejiang, the borrowing was guaranteed by Shanghai Hesai. During the year ended December 31, 2024, Zhejiang Hertz drew down RMB31,637. As of December 31, 2024, the outstanding balance was RMB31,637. The maturity date was September 17, 2029.

In December 2023, the Group acquired a Swiss company and assumed the long-term borrowings of CHF299 (equivalent to RMB2,516) the company borrowed in 2020, which will mature in 2030. During the year ended December 31, 2024, the Group repaid CHF50. As of December 31, 2024, the outstanding balance was CHF249 (equivalent to RMB1,993)

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14. BORROWINGS (continued)

Long-term bank borrowings - continued

The Group has RMB576,102 unused long-term bank facility as of December 31, 2024. The principal maturities of the long-term borrowings as of December 31, 2023 and 2024 are as follows:

	<u>As of December 31, 2023</u>	<u>As of December 31, 2024</u>
	RMB	RMB
2025	85,728	116,453
2026	85,728	119,355
2027	111,926	—
2028 and after	2,516	33,630
Total	<u>285,898</u>	<u>269,438</u>

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2023 and 2024 are as follows:

	<u>As of December 31, 2023</u>	<u>2024</u>
	RMB	RMB
Salaries and welfare payables	195,014	232,927
Payables for purchase of property and equipment	179,839	124,333
Accrued expenses	65,159	111,877
Current portion of operating lease liabilities	34,993	16,103
VAT and other tax payables	19,847	28,563
Advances from employees	3,472	2,923
Total	<u>498,324</u>	<u>516,726</u>

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16. LEASES

The Group has operating leases for offices and factories. The Group recognized ROU assets of RMB151,871 and RMB114,260 and corresponding current operating lease liabilities of RMB34,993 and RMB16,103 in accrued expenses and other current liabilities, and long-term operating lease liabilities of RMB119,413 and RMB98,370, as of December 31, 2023 and 2024, respectively. The weighted average remaining lease term was approximately 4.96 years as of December 31, 2024, and the weighted average discount rate were 2.85% and 2.70% for the years ended December 31, 2023 and 2024, respectively.

For the years ended December 31, 2022, 2023 and 2024, Operating lease expenses were RMB34,596, RMB37,878 and RMB39,517, respectively.

The maturities of lease liabilities as of December 31, 2023 and December 31, 2024 were as follows:

	As of December 31, 2023 RMB	As of December 31, 2024 RMB
2024	38,305	—
2025	25,951	18,963
2026	24,672	24,672
2027	24,877	24,672
2028	27,139	27,139
2029	24,877	27,139
Total lease payment	165,821	122,585
Less: imputed interest	(11,415)	(8,112)
Present value of minimum operating lease payments	154,406	114,473
Less: Current operating lease liabilities	(34,993)	(16,103)
Long-term operating lease liabilities	119,413	98,370

Cash paid for amounts included in the measurement of operating lease liabilities for the years ended December 31, 2023 and 2024 were RMB35,982 and RMB35,900, respectively. Right-of-use assets obtained in exchange for the operating lease liabilities in non-cash transactions for the years ended December 31, 2023 and 2024 were RMB133,661 and nil, respectively.

17. ORDINARY SHARES

Holders of Class A ordinary shares and Class B ordinary shares of the Company have the same rights, except for voting rights. Holders of Class A ordinary shares are entitled to ten votes per share in all shareholders' meetings, while holders of Class B ordinary shares are entitled to one vote per share.

In February and March 2023, 54,551,513 redeemable shares were reclassified into Class B ordinary shares upon IPO and the Company issued 10,125,118 Class B ordinary shares in connection with its IPO in the United States.

In August 2023, 4,000,000 Class B ordinary shares were issued to the Company's depository bank, Deutsche Bank, reserved for future issuances of shares upon the exercises of share options or vesting of restricted shares under the 2021 Share Incentive Plan. These shares are considered to be issued and not outstanding until such a time when the issuance occur for the exercise of share options or vesting of restricted shares.

In 2024, 17,474 Class A ordinary shares held by certain founders were sold to third party investors and converted into Class B ordinary shares.

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18. NET REVENUES

The following table presents the Group's net revenues for the years ended December 31, 2022, 2023 and 2024.

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Product revenues			
Revenue from LiDAR products	1,122,237	1,735,254	1,946,775
Other product revenues	29,630	29,636	19,259
Service revenues			
Engineering design, development and validation service and solution revenue	43,101	100,493	100,290
Other service revenues	7,702	11,606	10,833
Total	1,202,670	1,876,989	2,077,157

The following table summarizes the Group's revenues recognized at a point in time or over time.

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Revenue recognized at a point of time	1,175,758	1,783,803	2,038,302
Revenue recognized over time	26,912	93,186	38,855
Total	1,202,670	1,876,989	2,077,157

The following table summarizes the Group's revenues disaggregated by the different geographic location.

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Revenue by geographic location			
Mainland China	697,294	991,912	1,542,793
North America	358,549	748,147	280,874
Europe	86,153	70,500	161,095
Other regions	60,674	66,430	92,395
Total	1,202,670	1,876,989	2,077,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. NET REVENUES (continued)

The movements of the Group's accounts receivable and contract balances are as follows:

	Accounts Receivable RMB	Contract assets RMB	Contract liabilities RMB
Opening Balance as of January 1, 2022	85,821	146,537	122,603
Increase(decrease), net	399,223	(133,937)	(82,225)
Ending Balance as of December 31, 2022	485,044	12,600	40,378
Increase, net	39,774	7,088	39,547
Ending Balance as of December 31, 2023	524,818	19,688	79,925
Increase(decrease), net	240,209	(9,779)	(46,931)
Ending Balance as of December 31, 2024	765,027	9,909	32,994

Revenues with amount of RMB109,120, RMB37,111, and RMB72,585 were recognized in the years ended December 31, 2022, 2023 and 2024, respectively, that were included in the balance of contract liabilities at the beginning of each year.

19. OTHER OPERATING INCOME, NET

The following table presents the Group's other operating income, net for the years ended December 31, 2022, 2023 and 2024.

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Project-based payment	—	—	203,319
Government grants	10,825	14,280	71,174
Gain from disposing of subsidiary	—	6,129	—
Gain from transferring patents	—	6,111	—
Others	(8)	—	1,600
Total	10,817	26,520	276,093

In October 2024, the Group received a one-off project-based payment of US\$28,754 (equivalent to RMB203,319) from a leading global OEM headquartered in the United States ("the OEM customer"). This payment was intended to compensate the Group for the investments in research and development, as well as the actual costs of work-in-progress and raw materials incurred in connection with a contract with the OEM customer entered in March 2023. This contract, originally set to remain effective through December 2025, was terminated by the OEM customer due to the suspension of the relevant project by it.

Government grants mainly consist of the value-added tax benefits, operating subsidies and production line construction subsidies received from PRC local governments.

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20. INCOME TAXES

United States

The applicable income tax rate of United States where the Company's subsidiaries having significant operations for the years ended December 31, 2022, 2023 and 2024 is 27.98%, which is a blended state and federal rate.

PRC

The PRC Enterprise Income Tax Law ("EIT Law"), which became effective on January 1, 2008, applies a uniform enterprise income tax ("EIT") rate of 25% to both foreign-invested enterprises ("FIEs") and domestic enterprises. Certified High and New Technology Enterprises ("HNTE") are entitled to a favorable statutory tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year and must instead use the regular 25% EIT rate.

Shanghai Hesai applied for the HNTE qualification and received approval in December 2019, and such qualification was renewed in November 2022 for 2022 to 2024. Shanghai Hesai was entitled to continue to enjoy the beneficial tax rate of 15% as an HNTE for the years ended December 2022, 2023 and 2024. Zhengjiang Hertz applied for the HNTE qualification in December 2024 and was entitled to enjoy the beneficial tax rate of 15% as an HNTE for the years ended December 2024, 2025 and 2026. While Shanghai Hesai and Zhengjiang Hertz are in accumulated tax loss status as of December 31, 2024, the aforesaid tax benefits are not utilized.

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC, enterprises engaging in R&D activities are entitled to claim 200% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for 2021 and afterwards ("Super Deduction") when enterprise engage in manufacturing business. The additional deduction of qualified research and development expenses can only be claimed directly in the annual EIT filing and subject to the approval from the relevant tax authorities.

Withholding tax on undistributed dividends

Under the EIT Law enacted by the National People's Congress of the PRC, dividends generated after January 1, 2008 and payable by a foreign investment enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement.

In accordance with accounting guidance, all undistributed earnings are presumed to be transferred to the parent company and are subject to the withholding taxes. All FIEs are subject to the withholding tax from January 1, 2008. The presumption may be overcome if the Group has sufficient evidence to demonstrate that the undistributed dividends will be re-invested and the remittance of the dividends will be postponed indefinitely. The Group did not record any dividend withholding tax, as it has no retained earnings for any of the years presented.

The EIT Law also provides that an enterprise established under the laws of a foreign country or region but whose "de facto management body" is located in the PRC be treated as a resident enterprise for PRC tax purposes and consequently be subject to the PRC income tax at the rate of 25% for its global income. The Implementing Rules of the EIT Law merely define the location of the "de facto management body" as "the place where the exercising, in substance, of the overall management and control of the production and business operation, personnel, accounting, properties, etc., of a non-PRC company is located." Based on a review of surrounding facts and circumstances, the Group does not believe that it is likely that its operations outside of the PRC will be considered a resident enterprise for PRC tax purposes. However, due to limited guidance and implementation history of the EIT Law, there is uncertainty as to the application of the EIT Law. Should the Company be treated as a resident enterprise for PRC tax purposes, the Company will be subject to PRC income tax on worldwide income at a uniform tax rate of 25%. The Company is not subject to any other uncertain tax position.

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20. INCOME TAXES (continued)

Withholding tax on undistributed dividends - continued

The current and deferred portion of income tax (benefits) expenses included in the consolidated statements of operations and comprehensive loss are as follows:

	For the Year ended December 31,		
	2022 RMB	2023 RMB	2024 RMB
Current tax expenses	2	13	1,130
Deferred tax (benefits) expenses	(68)	645	—
Income tax (benefits) expenses	(66)	658	1,130

Net Loss before income tax by tax jurisdiction:

	For the Year ended December 31,		
	2022 RMB	2023 RMB	2024 RMB
Net loss before income tax from PRC operations	(251,302)	(480,479)	(25,325)
Net (loss) gain before income tax from non-PRC operations	(49,529)	5,169	(75,921)
Total net loss before income tax	(300,831)	(475,310)	(101,246)

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	For the Year ended December 31,		
	2022	2023	2024
Statutory income tax rate	25.00 %	25.00 %	25.00 %
Effect of different tax rate of different jurisdictions	(3.09)%	(0.79)%	8.00 %
Non-deductible expenses*	(6.12)%	(12.42)%	(17.37)%
Effect of super deduction on R&D expenses	41.00 %	37.21 %	105.66 %
Tax-free income	—	0.32 %	0.38 %
Effect of change of valuation allowance	(56.77)%	(49.46)%	(122.79)%
Income tax expenses	0.02 %	(0.14)%	(1.12)%

* Non-deductible expenses mainly consist of share-based compensation, inventory write-down and provision for expected credit losses.

Deferred tax assets and deferred tax liabilities

	As of December 31,	
	2023 RMB	2024 RMB
Deferred tax assets		
– Net operating loss carry forwards	547,908	712,079
– Deductible temporary differences	71,706	79,736
– Deferred revenue	19,620	15,283
Less: valuation allowance	(639,234)	(807,098)
Net deferred tax assets	—	—

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20. INCOME TAXES (continued)

Movement of valuation allowance

Movement of valuation allowance is as follows:

	For the Year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Balance at beginning of the year	241,485	410,857	639,234
Addition	169,372	228,377	167,864
Total	410,857	639,234	807,098

For the years ended December 31, 2022, 2023 and 2024, the Group had net operating loss carry forwards of approximately RMB1,492,808, RMB2,221,545 and RMB2,883,551, respectively, which mainly arose from the subsidiaries established in the PRC and United States. The loss carry forwards will expire during the period from 2024 to 2033, while the federal loss carry forwards for US entities do not expire and can be carried forward indefinitely. The Group had provided a full valuation allowance for the deferred tax assets as of December 31, 2023, and 2024, as management determined that deferred tax assets were not more likely than not to be realizable in future tax years based on all available evidence.

21. SHARE-BASED COMPENSATION

Employee share options

On February 26, March 11, May 20, August 19, November 18 and November 25, 2024 under the 2021 Plan, the Company granted 5,890,059 share options to certain employees, the vesting schedule of the awards include:

- 1) Twenty-five percent (25%) of the 4,967,784 options to be vested on each of the first, second, third and fourth anniversaries of the vesting commencement date.
- 2) One twelfth (1/12) of the 38,602 options to be vested on each calendar month, from the first full calendar month following the vesting commencement date though the twelfth (12th) month.
- 3) One forty-eighth (1/48) of the 883,673 options to be vested on each calendar month, from the first full calendar month following the vesting commencement date though the forty-eighth (48th) month.

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21. SHARE-BASED COMPENSATION (continued)

Employee share options - continued

The binomial option pricing model was applied in determining the estimated fair value of the options granted. The model requires the input of subjective assumptions. The following table presents the assumptions used to estimate the fair values of the share options granted for the years ended December 31, 2022, 2023 and 2024:

	For the year ended December 31,		
	2022	2023	2024
Expected volatility	74.00% – 80.00 %	82.00% - 85.00 %	84.00% - 89.00 %
Risk-free interest rate (per annum)	1.94% – 3.83 %	3.57% - 4.47 %	3.74% - 4.50 %
Expected dividend yield	0.00 %	0.00 %	0.00 %
Employee forfeiture rate (per annum)	3.80% – 3.92 %	2.40% - 7.50 %	7.50% - 13.30 %
Exercise multiples	2.50	2.50	2.50
Expected term	7.00	7.00	7.00
Fair value of underlying ordinary share (per share)	US\$18.11 – 19.91	US\$7.95 - 15.47	US\$3.62 - 5.06
Fair value of awards on valuation date	US\$12.93 – 17.11	US\$5.38 - 10.51	US\$3.11 -4.74

1) Expected volatility:

Expected volatility was estimated based on historical volatility of comparable companies for the period before the valuation date with length commensurate to contractual life of the share options.

2) Risk-free interest rate (per annum):

Risk-free interest rate was estimated based on the US Government Bond around the valuation date.

3) Expected dividend yield

The dividend yield was estimated as zero based on the plan to retain profit for corporate expansion and no dividend will be distributed in the near future.

4) Employee forfeiture rate (per annum):

Employee forfeiture rate was estimated by the management using employee resignation statistics.

5) Exercise multiple

Assumption on exercise multiple is made with reference to academic research.

6) Expected term:

The expected term was the life of options extracted from option agreements.

7) Fair value of underlying ordinary share (per share)

The fair value was the Group's stock price on valuation date.

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21. SHARE-BASED COMPENSATION (continued)

Employee share options - continued

The following table summarizes the activities of the Group's share options classified as equity for the year ended December 31, 2024:

	Number of options	Weighted average exercise price RMB	Weighted average grant date fair value RMB	Weighted average remaining contract life Years	Aggregate intrinsic value RMB
Outstanding at December 31, 2023	10,191,721	16.07	62.08	4.97	482,135
Granted	5,890,059	5.69	25.34	—	—
Forfeited	2,070,535	13.83	—	—	—
Exercised	4,093,736	13.31	—	—	370,257
Outstanding at December 31, 2024	9,917,509	11.52	42.10	5.41	887,259
Vested and expected to vest as of December 31, 2024	9,917,509	11.52	42.10	5.41	887,259
Exercisable as of December 31, 2024	3,157,171	17.43	52.97	3.72	275,284

The weighted-average grant-date fair value of options granted during the years 2022, 2023, and 2024 was RMB121.62, RMB55.08, and RMB25.34, respectively. The total intrinsic value of options exercised during the years ended December 31, 2022, 2023, and 2024, was nil, RMB74,380 and RMB370,257, respectively.

Total compensation expense recognized for the years ended December 31, 2022, 2023 and 2024 was RMB104,750, RMB228,312 and RMB109,391, respectively.

As of December 31, 2024, there was RMB218,600 of unrecognized compensation expenses, which is expected to be recognized over a weighted average period of 2.10 years.

Restricted share units ("RSUs")

On February 26, March 11, May 20, August 19, November 18 and November 25, 2024 under the 2021 Plan, the Company granted 490,821 RSUs to eligible management team, the vesting schedule of the awards include:

- 1) Fifty percent (50%) of the 15,000 RSUs to be vested on each of the first and second anniversaries of the vesting commencement date.
- 2) Twenty-five percent (25%) of the 439,278 RSUs to be vested on each of the first, second, third and fourth anniversaries of the vesting commencement date.
- 3) One eighth (1/8) of the 36,543 RSUs shall vest every six months from the vesting commencement date.

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21. SHARE-BASED COMPENSATION (continued)

Restricted share units (“RSUs”) - continued

The following table summarizes the activities of the Group’s RSUs classified as equity for the year ended December 31, 2024:

	Numbers of RSUs	Weighted average grant date fair value RMB
Outstanding at January 1, 2024	153,321	76.06
Granted	490,821	31.22
Forfeited	15,395	—
Vested	78,400	—
Outstanding at December 31, 2024	550,347	38.25

The Group did not grant RSUs during the years 2022. The weighted-average grant-date fair value of share units granted during the years 2023 and 2024 was RMB76.52 and RMB31.22, respectively. The total intrinsic value of share units exercised during the years ended December 31, 2023 and 2024 was RMB2,252 and RMB7,789. Total compensation expense recognized for the years ended December 31, 2023 and 2024 was RMB5,646 and RMB6,507.

As of December 31, 2024, there was RMB19,722 of unrecognized compensation expenses, which is expected to be recognized over a weighted average period of 2.11 years.

Tandem award

In May 2022, the Company granted an employee with a share option award of 60,000 shares with a per share exercise price of US\$18.65, which is based on the fair value of the ordinary share at the date of the grant. The options will vest ratably over a four-year period with 25% vested every year. The option agreement includes a provision whereby the grantee can choose to receive cash payment at US\$8 per share for any options that are vested but not exercised if his employment upon termination of employment when such grantee continuously work for the Group for four years. Exercise of share options cancels the cash award, and the cash redemption cancels all the vested share options. The Company considered this award as a combination grant of a cash settlement component with compensation cost measured based on the combined value.

This tandem award was originally classified as liability. In April 2024, share options were exercised and converted into equity. Total compensation expense recognized for the years ended December 31, 2022, 2023 and 2024 was RMB469, RMB666 and RMB166, respectively.

Share-based compensation for all employee share options, restricted share units and tandem award

The Group recorded share-based compensation expense of RMB105,219, RMB234,624 and RMB116,064 for the years ended December 31, 2022, 2023 and 2024, respectively, which were classified in the accompanying consolidated statements of operations as follows:

	For the Year ended December 31,		
	2022 RMB	2023 RMB	2024 RMB
Cost of revenues	8,037	16,245	6,932
Sales and marketing expenses	6,291	20,682	12,972
General and administrative expenses	48,998	63,326	27,776
Research and development expenses	41,893	134,371	68,384
Total	105,219	234,624	116,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

22. RELATED PARTY TRANSACTIONS

Major related parties that transacted with the Group and their respective relationship to the Group listed as below:

Name of the related parties	Relationship
Mr. Kai Sun	Founding Shareholder
Mr. Yifan Li	Founding Shareholder
Mr. Shaoqing Xiang	Founding Shareholder
Mr. Minglie Hu	Shareholder
Mr. Min Ai	Shareholder
Shanghai Leyi Technology L.P.	An affiliate of the shareholder of the Group

For the years ended December 31, 2022, 2023 and 2024, significant related party transactions were as follows:

	For year ended December 31,		
	2022 RMB	2023 RMB	2024 RMB
Payment for equity acquisition consideration			
Founding Shareholders and certain shareholders	—	17,506	—
Total	<u>—</u>	<u>17,506</u>	<u>—</u>

	For year ended December 31,		
	2022 RMB	2023 RMB	2024 RMB
Subscription consideration received from shareholders			
Founding Shareholders and certain shareholders	—	17,506	—
Total	<u>—</u>	<u>17,506</u>	<u>—</u>

The balances due to related parties of financing are as follows:

	As of December 31,		
	2022 RMB	2023 RMB	2024 RMB
Amounts due to related parties, net of allowance			
Founding Shareholders and certain shareholders	334,283	326,028	326,256
An affiliate of the shareholder of the Group	—	14,023	8,997
Total	<u>334,283</u>	<u>340,051</u>	<u>335,253</u>

In May 2021, as an integrated step of the 2021 Reorganization, in order to comply with certain PRC foreign currency control rules and regulations, the Founding Shareholders and certain investors are in the process of applying for permissions to pay the subscription consideration to the Company. Once they obtained the approval to pay the subscription receivables at Cayman Company level, the Group will then settle the consideration payable for the acquisition of their equity interests in Shanghai Hesai to facilitate their payment of the subscription receivable for the ordinary shares of the Company as part of the reorganization. In December 2023, the Group settled the consideration payable of RMB17,506 to one shareholder, and subscription receivable of this shareholder of RMB17,506 was received at Cayman Company level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

23. LOSS PER SHARE

The following table sets forth the computation of basic and diluted losses per share for the years indicated:

	For the year ended December 31,		
	2022	2023	2024
	RMB	RMB	RMB
Numerator			
Net loss	(300,765)	(475,968)	(102,376)
Deemed dividend	(446,419)	—	—
Net loss attributable to ordinary shareholders	(747,184)	(475,968)	(102,376)
Denominator			
Weighted average number of ordinary shares outstanding— basic and diluted	115,534,593	124,783,013	129,188,125
Basic and diluted net loss per share attributable to ordinary shareholders	(6.47)	(3.81)	(0.79)

For the years ended December 31, 2022, 2023 and 2024, the following share options were excluded from the calculation of diluted net loss per ordinary share, as their inclusion would have been anti-dilutive for the period prescribed.

	For the year ended December 31,		
	2022	2023	2024
	Number	Number	Number
Shares issuable upon exercise of share options	9,608,634	10,191,721	9,917,509
Shares issuable upon vest of restricted share units	—	153,321	550,347
Shares issuable upon exercise of tandem award	60,000	60,000	—
Total	9,668,634	10,405,042	10,467,856

24. EMPLOYEE BENEFIT

Mainland China Contribution Plan

Full time employees of the Group in the PRC participate in a government-mandated defined contribution plan pursuant to which certain pension benefits, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require that the Group to accrue for these benefits based on a certain percentage of the employees' salaries. The total contribution for such employee benefits were RMB82,877, RMB122,844 and RMB133,066 for the years ended December 31, 2022, 2023 and 2024, respectively. The Group has no ongoing obligation to its employees subsequent to its contributions to the PRC plan.

25. STATUTORY RESERVES AND RESTRICTED NET ASSETS

The Group's entities in the PRC are required under PRC laws to distribute its after-tax profits of the current year and set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. The statutory reserve funds are not distributable as cash dividends. The Group has no statutory reserve balance as of December 31, 2023 and 2024.

The PRC entities with the Group are restricted from transferring their net assets to the Company, which include paid-in capital and statutory reserves. As of December 31, 2024, the balance of restricted net assets was RMB3,373,824.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share and per share data and otherwise noted)

26. COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments related to the new manufacturing facility in Shanghai

Future minimum capital payment under non-cancellable agreements are as follows:

	As of December 31, 2024
	RMB
2025	132,883

Royalty fee commitments

The Group is obligated to make royalty payments to a third party from 2020 through 2030. For each year starting from 2023, the royalty payment is determined to be the greater amount of a base payment of US\$3.0 million (except for the year of 2030, where the base payment shall be US\$0.3 million) or amount calculated based on a tiered percentage of net revenues. In particular, the percentage should be 4%, 3% and 2% for the net revenues of rotational scanning product from US\$0 to US\$425,000, from US\$425,000 to US\$2,925,000, and from US\$2,925,000 to above, respectively. Net sales do not include (a) taxes, tariffs, customs duties, excise, or other governmental charges (except income tax) levied and that are separately stated in an invoice, (b) reasonable charges for freight or insurance that are separately stated in an invoice and borne by the Group or its affiliates.

The actual royalty fees for the years ended December 31, 2022, 2023 and 2024 were RMB18,044, RMB35,288 and RMB24,542, respectively.

Contingencies

The Group may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of business.

On April 7, 2023, the Company and certain of its officers, directors, authorized U.S. representative, and IPO underwriters were named as defendants in a putative securities class action filed with federal court, alleging that the Company made false and misleading statements in its IPO registration statement.

On April 11, 2023, Ouster Inc. (“Ouster”) filed a complaint against the Company with the United States District Court for the District of Delaware (“Delaware Action”) for alleged patent infringement relating to the production, use, sale and/or importation of certain LiDAR systems and/or components thereof.

As these matters are in their preliminary stage, the Company cannot reasonably determine the outcome of these litigations and regulatory proceeding and potential loss, if any.

27. SUBSEQUENT EVENT

The Group has evaluated subsequent events through April 1, 2025, which is the date when the financial statements were issued.

On March 10, 2025, the Group granted a total of 372,780 share options at the exercise price of US\$3.49, and 4,308 RSUs to certain employees under the 2021 Plan, with the vesting period of 4 years.

In January and March 2025, the Company received subscription receivables of RMB292,721 in total from the Founding Shareholders and certain shareholders. All payables or subscription receivables related to 2021 reorganization of the Group were settled as of April 1, 2025.

ADDITIONAL INFORMATION OF THE PARENT COMPANY
FINANCIAL STATEMENTS SCHEDULE I
HESAI GROUP
CONDENSED BALANCE SHEETS
AS OF DECEMBER 31, 2023 and 2024
(Amounts in thousands, except share and per share data and otherwise noted)

	As of December 31,		
	2023 RMB	2024 RMB	US\$ (Note 2)
ASSETS			
Cash and cash equivalents	363,778	1,056,383	144,724
Short-term investments	581,962	—	—
Prepayments and other current assets	8,005	4,100	562
Investments in subsidiaries	2,929,800	2,915,337	399,400
Property and equipment, net	5	—	—
TOTAL ASSETS	3,883,550	3,975,820	544,686
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts due to subsidiaries	14,024	8,997	1,233
Accrued expenses and other current liabilities	7,208	35,092	4,807
TOTAL LIABILITIES	21,232	44,089	6,040
Shareholders' equity			
Class A Ordinary shares (US\$0.0001 par value, 50,000,000 shares authorized, 30,033,379 and 30,015,905 shares issued and outstanding as of December 31, 2023 and 2024, respectively)	19	19	3
Class B Ordinary shares (US\$0.0001 par value, 900,000,000 shares authorized, 99,626,332 and 101,143,806 shares issued, 96,995,110 and 101,143,806 shares outstanding as of December 31, 2023 and 2024, respectively)	67	70	10
Additional paid-in capital	7,423,862	7,577,113	1,038,060
Subscription receivables	(292,721)	(292,721)	(40,103)
Accumulated other comprehensive income	38,440	56,975	7,806
Accumulated deficit	(3,307,349)	(3,409,725)	(467,130)
Total shareholders' equity	3,862,318	3,931,731	538,646
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,883,550	3,975,820	544,686

ADDITIONAL INFORMATION OF THE PARENT COMPANY
FINANCIAL STATEMENTS SCHEDULE I
HESAI GROUP
CONDENSED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2023 and 2024
(Amounts in thousands, except share and per share data and otherwise noted)

	For the years ended December 31,			
	2022 RMB	2023 RMB	2024 RMB	US\$ (Note 2)
Net revenues	—	—	—	—
Sales and marketing expenses	—	—	(6,741)	(924)
General and administrative expenses	(37,105)	(98,099)	(67,475)	(9,244)
Interest income	—	42,402	50,754	6,954
Foreign exchange (gain) loss, net	2	(12)	(9)	(1)
Equity in deficit of subsidiaries	(263,662)	(420,259)	(78,905)	(10,810)
Net Loss	(300,765)	(475,968)	(102,376)	(14,025)
Deemed dividend	(446,419)	—	—	—
Net loss attributable to ordinary shareholders of the Company	(747,184)	(475,968)	(102,376)	(14,025)
Net Loss	(300,765)	(475,968)	(102,376)	(14,025)
Comprehensive loss, net of tax of nil:				
Foreign currency translation adjustments	(12,073)	42,048	18,535	2,539
Comprehensive loss	(312,838)	(433,920)	(83,841)	(11,486)

ADDITIONAL INFORMATION OF THE PARENT COMPANY
FINANCIAL STATEMENTS SCHEDULE I
HESAI GROUP
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022, 2023 and 2024
(Amounts in thousands, except share and per share data and otherwise noted)

	Year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$ (Note 2)
Cash flows from operating activities:				
Net loss	(300,765)	(475,968)	(102,376)	(14,025)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>				
Depreciation and amortization	2	3	3	1
Loss from equity in earnings of subsidiaries	263,662	420,259	78,905	10,810
Share-based compensation	33,342	42,379	11,922	1,633
Fair value change of short-term investments	—	(12,500)	12,500	1,712
Foreign exchange (gain) loss, net	(2)	12	9	1
<i>Changes in operating assets and liabilities:</i>				
Prepayments and other current assets	(545)	(1,544)	3,905	535
Accrued expenses and other current liabilities	2,611	6,281	27,885	3,820
Net cash (used in) provided by operating activities	(1,695)	(21,078)	32,753	4,487
Cash flows from investing activities:				
Purchases of short-term investments	—	(742,287)	(309,349)	(42,381)
Maturity of short-term investments	—	176,302	878,812	120,397
Purchases of property and equipment	(10)	—	—	—
Payment and collection of loans to and investments in subsidiaries	—	(379,237)	55,792	7,643
Net cash (used in) provided by investing activities	(10)	(945,222)	625,255	85,659
Cash flows from financing activities:				
Cash contribution from shareholders in connection with the 2021 Reorganization	—	17,506	—	—
Proceeds from issuance of ordinary shares	—	1,225,470	—	—
Payment of offering costs	—	(22,828)	—	—
Proceeds from issuance of ordinary shares upon the exercise of stock options	—	2,872	34,139	4,677
Collection and payments of amounts due to subsidiaries	—	14,024	(15,710)	(2,152)
Net cash provided by financing activities	—	1,237,044	18,429	2,525
Net (decrease) increase in cash and cash equivalents	(1,705)	270,744	676,437	92,671
Cash and cash equivalents, beginning of the year	36,160	35,411	363,778	49,837
Effect of foreign exchange rate changes on cash and cash equivalents	956	57,623	16,168	2,216
Cash and cash equivalents, end of the year	35,411	363,778	1,056,383	144,724
Supplemental disclosure of non-cash financing activities:				
Accrued offering cost	480	—	—	—

ADDITIONAL FINANCIAL INFORMATION OF PARENT COMPANY
FINANCIAL STATEMENTS SCHEDULE I
HESAI GROUP
FINANCIAL INFORMATION OF PARENT COMPANY
NOTES TO SCHEDULE I

1. Schedule I has been provided pursuant to the requirements of Rule 12-04(a) and 5-04(c) of SEC Regulation S-X, which requires condensed financial information as to the financial position, changes in financial position and results of operations of a parent company as of the same date and for the same period for which audited financial statements have been presented when the restricted net assets of consolidated subsidiaries exceed 25 percent of consolidated net assets as of the end of the most recently completed fiscal year. The Company does not include condensed financial information as to the changes in deficit as such financial information is the same as the consolidated statements of changes in shareholders' deficit.

2. The condensed financial information has been prepared using the same accounting policies as set out in the financial statements except that the equity method has been used to account for investments in its subsidiaries. For the parent company, the Company records its investments in subsidiaries under the equity method of accounting as prescribed in ASC 323, Investments - Equity Method and Joint Ventures. Such investments are presented on the Condensed Balance Sheet as "Investment in subsidiaries" and the subsidiaries' profit or loss as "Loss from equity in earnings of subsidiaries" on the Condensed Statements of Comprehensive Loss. Ordinarily under the equity method, an investor in an equity method investee would cease to recognize its share of the losses of an investee once the carrying value of the investment has been reduced to nil absent an undertaking by the investor to provide continuing support and fund losses. For the purpose of this Schedule I, the parent company has continued to reflect its share, based on its proportionate interest, of the losses of subsidiaries regardless of the carrying value of the investment even though the parent company is not obligated to provide continuing support or fund losses.

3. As of December 31, 2023 and 2024, there were no material contingencies, significant provisions of long-term obligations, guarantees of the Company.

4. Translations of balances from RMB into US\$ as of and for the year ended December 31, 2024 are solely for the convenience of the readers and were calculated at the rate of US\$1.00= RMB7.2993, as set forth in H.10 statistical release of the Federal Reserve Board on December 31, 2024. The translation is not intended to imply that the RMB amounts could have been, or could be, converted, realized or settled into United States dollars at that rate on December 31, 2024, or at any other rate.