
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 001-39151

EHang Holdings Limited

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

11/F Building One, EHang Technology Park

No. 29 Bishan Blvd., Huangpu District

Guangzhou, 510700

People's Republic of China

(Address of principal executive offices)

Conor Chia-hung Yang

Chief Financial Officer

Telephone: +86 20 2902 8899

EHang Holdings Limited
11/F Building One, EHang Technology Park
No. 29 Bishan Blvd., Huangpu District
Guangzhou, 510700
People's Republic of China

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American depositary shares, each representing two Class A ordinary shares, par value US\$0.0001 per share	EH	The Nasdaq Global Market
Class A ordinary shares, par value US\$0.0001 per share*		The Nasdaq Global Market*

* Not for trading, but only in connection with the listing on the Nasdaq Global Market of American depositary shares, each representing two Class A ordinary shares

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2024, there were 143,769,715 ordinary shares outstanding, comprised of (i) 104,743,155 Class A ordinary shares (excluding Class A ordinary shares issued to the depositary bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plans and treasury shares), par value of US\$0.0001 per share, and (ii) 39,026,560 Class B ordinary shares outstanding, par value of US\$0.0001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as Issued
by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

TABLE OF CONTENTS

	Page
INTRODUCTION	1
FORWARD-LOOKING INFORMATION	2
PART I	4
Item 1. Identity of Directors, Senior Management and Advisers	4
Item 2. Offer Statistics and Expected Timetable	4
Item 3. Key Information	4
Item 4. Information on the Company	60
Item 4A. Unresolved Staff Comments	99
Item 5. Operating and Financial Review Prospects	99
Item 6. Directors, Senior Management and Employees	113
Item 7. Major Shareholders and Related Party Transaction	123
Item 8. Financial Information	124
Item 9. The Offer and Listing	126
Item 10. Additional Information	126
Item 11. Quantitative and Qualitative Disclosures about Market Risk	142
Item 12. Description of Securities Other than Equity Securities	142
PART II	144
Item 13. Defaults, Dividend Arrearages and Delinquencies	144
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	144
Item 15. Controls and Procedures	144
Item 16A. Audit Committee Financial Expert	145
Item 16B. Code of Ethics	145
Item 16C. Principal Accountant Fees and Services	146
Item 16D. Exemptions from the Listing Standards for Audit Committees	146
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	146
Item 16F. Change in Registrant's Certifying Accountant	146
Item 16G. Corporate Governance	146
Item 16H. Mine Safety Disclosure	147
Item 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	147
Item 16J. Insider Trading Policies	148
Item 16K. Cybersecurity	148
PART III	150
Item 17. Financial Statements	150
Item 18. Financial Statements	150
Item 19. Exhibits	150
SIGNATURES	153

INTRODUCTION

Conventions Used in this Annual Report

In this annual report, unless otherwise indicated or the context otherwise requires:

- “ADSS” means American depositary shares, each of which represents two of our Class A ordinary shares;
- “CAAC” means the Civil Aviation Administration of China;
- “China” and the “PRC” means the People’s Republic of China, and only in the context of describing the PRC laws, rules, regulations, regulatory authorities, and any PRC entities or citizens under such rules, laws and regulations and other legal or tax matters in this annual report, excludes Hong Kong, Macau and Taiwan;
- “Class A ordinary shares” means class A ordinary shares, par value US\$0.0001 per share, of EHang Holdings;
- “Class B ordinary shares” means class B ordinary shares, par value US\$0.0001 per share, of EHang Holdings;
- “Ehfly Technology” means Ehfly Technology Limited, a company incorporated in Hong Kong and a direct, wholly-owned subsidiary of EHang Holdings;
- “EHang,” “we,” “us,” “our company” and “our” means collectively EHang Holdings and its subsidiaries and only in the context of describing our consolidated financial information only, also includes the VIE and the VIE’s subsidiaries;
- “EHang Holdings” means EHang Holdings Limited, an exempted company incorporated in the Cayman Islands;
- “eVTOL” means electric vertical takeoff and landing;
- “PCAOB” means Public Company Accounting Oversight Board of the United States.
- “RMB” and “Renminbi” means the legal currency of China;
- “shares” and “ordinary shares” means the Class A ordinary shares and/or the Class B ordinary shares;
- “UAM” means urban air mobility;
- “UAVs” means unmanned aerial vehicles;
- “US\$,” “U.S. dollars,” “\$,” and “dollars” means the legal currency of the United States;
- “VIE” means Guangzhou EHang Intelligent Technology Co., Ltd., a company incorporated in the PRC that has entered into a series of contractual arrangement with our wholly-owned PRC subsidiary. Under these contractual arrangements, EHang Holdings has a “controlling financing interest” as defined in FASB ASC 810 such that it is considered the primary beneficiary for accounting purposes only and thus consolidates each of the VIE and the VIE’s subsidiaries under U.S. GAAP; and
- “WFOE” means EHang Intelligent Equipment (Guangzhou) Co., Ltd., a company incorporated in the PRC and an indirect, wholly-owned subsidiary of EHang Holdings.

Our reporting currency is the Renminbi because our business is mainly conducted in China and substantially all of our revenues are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specific rates solely for the convenience of the reader. The translations of Renminbi amounts into U.S. dollars in this annual report is based on the rate certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi amounts into U.S. dollars and from U.S. dollars to Renminbi amounts in this annual report were made at a rate of RMB7.2993 to US\$1.00, the noon buying rate in effect as of December 31, 2024 set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, or at all.

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements that reflect our current expectations and views of future events. These forward-looking statements are made under the “safe-harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. Known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

You can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to,” “potential,” “continue” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategies and financial needs. These forward-looking statements include, but are not limited to, statements about:

- our goals and strategies;
- our future business development, financial condition and results of operations;
- the trends in and expected growth of the UAV, UAM and/or low-altitude economy industry in the PRC and globally;
- our expectation regarding the regulatory approvals and certifications for our products and services;
- our expectations regarding the demand for and market acceptance of our products and services;
- our expectations regarding our relationships with distributors, customers, component suppliers, strategic partners and other stakeholders;
- our expectations regarding fulfilment of conditional orders and pre-orders for our products;
- competition in our industry;
- relevant government policies and regulations relating to our industry; and
- assumptions underlying or related to any of the foregoing.

These forward-looking statements involve various risks and uncertainties. You should read thoroughly this annual report and the documents that we refer to with the understanding that our actual future results may be materially different from, or worse than, what we expect. Other sections of this annual report include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

This annual report contains certain data and information that we obtained from various government and private publications. Statistical data in these publications also include projections based on a number of assumptions. The UAV industry may not grow at the rate projected by market data, or at all. Failure of this market to grow at the projected rate may have a material adverse effect on our business and the market price of the ADSs. In addition, the rapidly evolving nature of the UAV industry results in significant uncertainties for any projections or estimates relating to the growth prospects or future condition of our market. Furthermore, if any one or more of the assumptions underlying the market data are later found to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this annual report and the documents that we refer to in this annual report and have filed as exhibits to this annual report, of which this annual report is a part, completely and with the understanding that our actual future results may be materially different from, or worse than, what we expect.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Our Corporate Structure and Contractual Arrangements with the VIE and its Shareholders

EHang Holdings is not a PRC operating company but a Cayman Islands holding company conducting operations in China primarily through its subsidiaries incorporated in the PRC, including EHang Intelligent Equipment (Guangzhou) Co., Ltd., or the WFOE. PRC laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies in the UAM industry. Pursuant to the latest version of the “negative list,” namely, the Special Management Measures (Negative List) for the Access of Foreign Investment (2024), which became effective on November 1, 2024, our principal business does not fall into the “negative list” in respect of “restricted” or “prohibited” categories for foreign investment. However, foreign investment in commercial and general aviation is restricted under PRC laws and regulations. Accordingly, Guangzhou EHang Intelligent Technology Co., Ltd., or the VIE, and its subsidiaries conduct business operations in the PRC, which may not be conducted by EHang Holdings and/or its subsidiaries under PRC laws and regulations, and the WFOE, the VIE and the VIE’s shareholders have entered into a series of contractual arrangements. These agreements enable us to:

- have the power to direct significant activities of the VIE;
- receive economic benefits from the VIE that potentially could be significant to the VIE; and
- have an exclusive option to purchase all or part of the equity interests and assets in the VIE, when and to the extent permitted by PRC laws.

These contractual arrangements among the WFOE, the VIE and the VIE’s shareholders include shareholders voting proxy agreements, exclusive consulting and services agreements, exclusive option agreements, loan agreements, and share pledge agreements. Under the contractual arrangements, EHang Holdings has a “controlling financing interest” as defined in FASB ASC 810 such that EHang Holdings is considered the primary beneficiary of the VIE and the VIE’s subsidiaries for accounting purposes only and thus consolidates each of these entities under U.S. GAAP. For more details of these contractual arrangements, see “Item 4. Information on the Company—C. Organizational Structure—Contractual Arrangements with the VIE and its Shareholders.” Investors in the ADSs are not purchasing equity interest in the VIE or the VIE’s subsidiaries but instead are purchasing equity interest in EHang Holdings, a Cayman Islands holding company. Revenues contributed by the VIE and the VIE’s subsidiaries accounted for 0.01%, 7.9% and 1.2% of our consolidated revenues for the years ended December 31, 2022, 2023 and 2024, respectively.

However, the contractual arrangements may not be as effective as direct ownership in providing us with power to direct the activities of the VIE and we may incur substantial costs to enforce the terms of the agreements. If the VIE or the VIE’s shareholders fail to perform their respective obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us power to direct the activities of the VIE, and these agreements have not been tested in China courts. Furthermore, if we are unable to direct the activities of the VIE and the VIE’s subsidiaries, we would not be able to continue to consolidate the financial results of these entities in our financial statements. Please see “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—We rely on contractual arrangements with the VIE and the VIE’s shareholders for certain business operations in the PRC, which may not be as effective as direct ownership in providing operational control” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—The shareholders of the VIE may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.”

There are also substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules regarding the status of the rights of our Cayman Islands holding company with respect to the contractual arrangements with the VIE and the VIE's shareholders. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or the VIE is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in accordance with the applicable laws and regulations to take action in dealing with such violations or failures. Please see "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government finds that the contractual arrangements between the WFOE, the VIE and the VIE's shareholders do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations" and "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Our business may be significantly affected by the Foreign Investment Law."

Our corporate structure is subject to risks associated with our contractual arrangements with the VIE. Investors may never have a direct ownership interest in the businesses that are conducted by the VIE. Uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements, and these contractual arrangements have not been tested in a court of law. If the PRC government finds that the agreements that establish the structure for operating our business in China do not comply with PRC laws and regulations, or if these regulations or the interpretation of existing regulations change or are interpreted differently in the future, we and the VIE could be subject to severe penalties or be forced to relinquish our interests in those operations. Our holding company, the WFOE, the VIE, and investors of our company face uncertainty about potential future actions by the PRC government that could affect the enforceability of the contractual arrangements with the VIE and, consequently, significantly affect the financial performance of the VIE and our company as a whole.

We and the VIE face various legal and operational risks and uncertainties related to doing business in China. Some of our business operations are conducted in China through the VIE, and we and the VIE are subject to complex and evolving PRC laws and regulations. For example, we and the VIE face risks associated with regulatory approvals on offshore offerings, the use of variable interest entities, anti-monopoly regulatory actions, and oversight on cybersecurity and data privacy, as well as the lack of inspection by the Public Company Accounting Oversight Board, or PCAOB, on our auditors, which may impact our ability to conduct certain businesses, accept foreign investments, or list on a U.S. or other foreign exchange. These risks could result in a material adverse change in our operations and the value of the ADSs, significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause such securities to significantly decline in value. For a detailed description of risks related to doing business in China, "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China."

PRC government's significant authority in regulating our operations and its oversight and control over offerings conducted overseas by, and foreign investment in, China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors. Implementation of industry-wide regulations, including data security or anti-monopoly related regulations, in this nature may cause the value of such securities to significantly decline. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The PRC government's significant oversight over our and the VIE's business operation could result in a material adverse change in our operations and the value of the ADSs."

Risks and uncertainties arising from the legal system in China, including risks and uncertainties regarding the enforcement of laws and quickly evolving rules and regulations in China, could result in a material adverse change in our operations and the value of the ADSs. For more details, see "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us."

The Holding Foreign Companies Accountable Act

Pursuant to the Holding Foreign Companies Accountable Act, or the HFCAA, if the U.S. Securities and Exchange Commission, or the SEC, determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor. On May 26, 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of the annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to complete inspection and investigation over accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The ADSs will be delisted and prohibited from trading in the U.S. under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China.”

Permissions Required from the PRC Authorities for Our Operations

The VIE and the VIE’s subsidiaries currently conduct operations in the PRC, and we consolidate the financial results of such operations under U.S. GAAP as a result of the contractual arrangements. Our operations in China are governed by PRC laws and regulations. As of the date of this annual report, our PRC subsidiaries, the VIE and the VIE’s subsidiaries have obtained the requisite licenses and permits from the PRC government authorities that are material for the business operations of our subsidiaries and the VIE in China, including, among others, General Aviation Enterprise Operation Licenses required for using UAVs in aerial spraying, aerial photography, operator training, flight show, aerial media solutions and other purposes. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for our business operations in the future. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and its Implementation Regulations and how they may impact the viability of our current corporate structure, corporate governance and business operations” and “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may be adversely affected by the complexities, uncertainties and changes in PRC regulations on technology companies.”

Furthermore, in connection with our previous issuance of securities to foreign investors, under current PRC laws, regulations and regulatory rules, as of the date of this annual report, we, our PRC subsidiaries and the VIE, (i) are not required to obtain permissions from the China Securities Regulatory Commission, or the CSRC, for our listing, (ii) are not required to go through cybersecurity review by the Cyberspace Administration of China, or the CAC, and (iii) have not been asked to obtain such permissions by any PRC authority.

Cash and Asset Flows through Our Organization

Our offshore holding company is permitted under PRC laws and regulations to provide funding to our PRC subsidiary only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans.

For the years ended December 31, 2022, 2023 and 2024, EHang Holdings made capital contributions of RMB58.9 million, RMB150.3 million and RMB79.3 million (US\$10.9 million), respectively, to its subsidiaries. No other transfers, dividends or distributions of cash or assets were made between EHang Holdings and EHang Holdings’ subsidiaries, on the one hand, and the VIE and the VIE’s subsidiaries, on the other hand, except for the foregoing capital contributions.

EHang Holdings is a Cayman Islands holding company with no material operations of its own. The VIE and the VIE's subsidiaries currently conduct operations in the PRC, and we consolidate the financial results of such operations under U.S. GAAP as a result of the contractual arrangements. As a result, although other means are available for us to obtain financing at the holding company level, EHang Holdings' ability to pay dividends and to service any debt it may incur may depend upon dividends paid by its subsidiaries. Among them, our Hong Kong subsidiary Ehfly Technology's source of dividend depends on dividends paid by its PRC subsidiaries, which in part depends on payments from the VIE under the contractual arrangements with the VIE.

Current PRC regulations permit our PRC subsidiaries, such as the WFOE, to pay dividends to us only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, the VIE and the WFOE are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of their respective registered capital. The WFOE and the VIE may also allocate a portion of their after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends. Furthermore, if the WFOE incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. In addition, the PRC tax authorities may require us to adjust our taxable income under the contractual arrangements we currently have in place in a manner that would materially and adversely affect the WFOE's ability to pay dividends and other distributions to us. Any limitation on the ability of our subsidiary to distribute dividends to us or on the ability of the VIE to make payments to the WFOE may restrict our ability to satisfy our liquidity requirements. See "Item 4. Information on the Company—B. Business Overview—PRC Regulation—Dividend Distribution."

Additionally, the VIE receives substantially all of its revenues in RMB and the PRC government imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange of the PRC, or the SAFE by complying with certain procedural requirements. Dividends payments to us by Ehfly Technology, our Hong Kong subsidiary, in foreign currencies are subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulations, such as the overseas investment registrations by our shareholders or the ultimate shareholders of our corporate shareholders who are PRC residents. Approval by or registration with appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, the WFOE may not be able to pay dividends in foreign currencies to us and our access to cash generated from its operations will be restricted. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Governmental control of currency conversion may limit our ability to utilize our operating revenues effectively and affect the value of your investment."

None of our subsidiaries has declared or paid any dividend or distribution to us. We have never declared or paid any dividend on our ordinary shares. We currently intend to retain most, if not all, of our available funds and any future earnings to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Dividend Policy." For the Cayman Islands, PRC and U.S. federal income tax considerations applicable to an investment in the ADSs or Class A ordinary shares, see "Item 10. Additional Information—E. Taxation."

Under the current laws of the Cayman Islands, EHang Holdings is not subject to tax on income or capital gains. Upon payments of dividends to our shareholders, no Cayman Islands withholding tax will be imposed. For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid in Mainland China and Hong Kong, assuming that: (i) the VIE has taxable earnings, and (ii) we determine to pay a dividend in the future.

	Tax Calculation ⁽¹⁾
Hypothetical pre-tax earnings in the VIE ⁽¹⁾	100
Tax on earnings at statutory rate of 25% at WFOE level ⁽²⁾	(25)
Amount to be distributed as dividend from WFOE to Ehfly Technology ⁽³⁾	75
Withholding tax at a treaty rate of 5%	(3.75)
Amount to be distributed as dividend at Ehfly Technology level and net distribution to EHang Holdings ⁽⁴⁾	71.25

Notes:

- (1) For purposes of this example, the tax calculation has been simplified. The hypothetical book pre-tax earnings amount is assumed to equal Chinese taxable income.
- (2) Certain of our subsidiaries and the VIE qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.
- (3) China's Enterprise Income Tax Law imposes a withholding income tax of 10% on dividends distributed by a Foreign Invested Enterprise to its immediate holding company outside of Mainland China. A lower withholding income tax rate of 5% is applied if the Foreign Invested Enterprise's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with Mainland China, subject to a qualification review at the time of the distribution. There is no incremental tax at Ehfly Technology level for any dividend distribution to EHang Holdings.
- (4) If a 10% withholding income tax rate is imposed, the withholding tax will be 7.5 and the amount to be distributed as dividend at Ehfly Technology level and net distribution to EHang Holdings will be 67.5.

The table above has been prepared under the assumption that all profits of the VIE will be distributed as fees to our PRC subsidiaries under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the VIE exceed the service fees paid to our PRC subsidiaries (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the VIE could make a non-deductible transfer to our PRC subsidiaries for the amounts of the stranded cash in the VIE. This would result in such transfer being non-deductible expenses for the VIE but still taxable income for the PRC subsidiaries. Our management believes that there is only a remote possibility that this scenario would happen.

Should all tax planning strategies fail the VIE could, as a matter of last resort, make a non-deductible transfer to the WFOE for amounts of stranded cash in the VIE. This would result in the double taxation of earnings: once at the VIE level (non-deductible expense) and again at the WFOE level (for presumptive earnings on the transfer). This has the impact of reducing the amount available above from 71.25% to approximately 53% of pre-tax income, respectively. Management believes this scenario to be remote.

Financial Information Relating to the VIE

The following tables present the condensed consolidating schedule showing the results of operations, financial position and cash flows for our holding company, EHang Holdings, EHang Holdings' subsidiaries other than the WFOE, the WFOE, the VIE and the VIE's subsidiaries, eliminating adjustments and consolidated totals as of December 31, 2023 and 2024 and for the years ended December 31, 2022, 2023 and 2024.

Selected Condensed Consolidated Statements of Operations Data

	2022					2023					2024							
	EHang Holdings	Other subsidiaries	WFOE subsidiaries	VIE and VIE's subsidiaries	Eliminating adjustments	EHang Holdings	Other subsidiaries	WFOE subsidiaries (RMB in thousands)	VIE and VIE's subsidiaries	Eliminating adjustments	EHang Holdings	Other subsidiaries	WFOE subsidiaries	VIE and VIE's subsidiaries	Eliminating adjustments			
Revenues	—	3,175	44,098	10,147	(13,103)	44,317	5,346	102,855	9,225	(30,309)	117,426	885	450,037	123,960	(118,730)	456,152		
- Third-party revenues	—	2,595	41,716	6	—	44,317	5,346	102,855	9,225	—	117,426	—	449,714	5,553	—	456,152		
- Inter-company revenues(1)	—	580	2,382	10,141	(13,103)	—	—	6,726	23,583	(30,309)	—	885	333	118,407	(118,730)	—		
Cost of revenues	—	(1,496)	(24,655)	(836)	11,889	(15,098)	(3,450)	(62,372)	(5,467)	29,174	(42,115)	—	(284,671)	(3,850)	112,315	(176,206)		
- Third-party cost of revenues	—	—	(14,516)	(582)	—	(15,098)	—	(39,846)	(2,663)	—	(42,115)	—	(172,636)	(3,570)	—	(176,206)		
- Inter-company cost of revenues(1)	—	(1,496)	(10,139)	(254)	11,889	—	(3,444)	(22,526)	(2,804)	29,174	—	—	(112,035)	(280)	112,315	—		
Gross profit	—	1,679	19,443	9,311	(1,214)	29,219	1,896	47,209	27,341	(1,135)	75,311	885	165,366	120,110	(6,415)	279,946		
Sales and marketing expenses	—	(8,009)	(37,908)	(8,309)	1,110	(53,116)	—	(7,627)	(43,184)	(10,004)	426	(60,389)	—	(7,275)	(99,896)	(24,997)	1,141	
General and administrative expenses	(13,630)	(1,554)	(116,451)	(19,380)	(50)	(131,065)	(5,246)	206	(136,544)	(8,508)	—	(150,092)	(16,040)	(5,819)	(198,543)	(12,996)	(233,398)	
Research and development expenses	—	—	(114,692)	(20,428)	38	(135,082)	—	(150,457)	(16,861)	3	(167,315)	—	(182,880)	(20,578)	3,993	(199,465)		
Total operating expenses	(13,630)	(9,563)	(269,051)	(48,117)	1,908	(339,263)	(5,246)	(7,421)	(330,185)	(35,373)	429	(377,796)	(16,040)	(13,094)	(481,319)	(58,571)	(563,890)	
Other operating income	—	409	4,150	1,535	—	6,094	—	839	2,648	2,746	—	1,259	19,594	9,016	—	29,869		
Operating (loss) income	(13,630)	(7,475)	(245,458)	(37,271)	(116)	(303,950)	(5,246)	(4,686)	(280,328)	(5,286)	(706)	(296,252)	(16,040)	(10,950)	(296,359)	70,555	(1,281)	(254,075)
Share of losses	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
From subsidiaries(2)	(253,575)	(251,156)	—	—	504,731	(290,785)	(292,422)	—	—	583,207	—	(298,463)	(290,987)	—	—	589,450	—	
Income (losses) from the VIEs	(37,603)	(37,603)	(37,603)	—	112,809	—	(5,829)	(5,829)	—	17,487	—	65,749	65,749	65,749	—	(197,247)	—	
Interest and investment income	1	3,971	639	58	—	4,669	160	4,220	4,077	27	—	8,484	18,978	1,255	9,707	659	30,599	
Interest expenses	—	—	(1,788)	(357)	—	(2,145)	—	(2,728)	(202)	—	(2,930)	—	—	—	(3,125)	(250)	(3,375)	
Amortization of debt	—	—	(1,674)	—	—	(1,674)	—	(12,023)	—	—	(12,023)	—	—	—	—	—	—	
Foreign exchange gain (loss)	—	(494)	(1,474)	480	—	(1,488)	—	342	(46)	98	394	—	(882)	(392)	86	(1,188)		
Other income	—	1,182	393	369	—	1,944	—	1,525	257	184	1,966	—	2,630	1,756	308	(24)	4,670	
Other expenses (Loss) income before income tax and income (loss) from equity investment	(23,414)	—	(2,082)	(1,308)	—	(26,804)	—	(4)	(147)	(63)	(214)	—	(685)	(1,240)	1	(1,924)		
Income tax expenses	(328,221)	(291,575)	(289,047)	(38,029)	617,424	(329,448)	(301,700)	(296,854)	(296,767)	(5,242)	599,988	(300,575)	(229,776)	(233,185)	(223,349)	70,118	390,899	
Income tax expenses	—	(17)	—	(62)	—	(79)	—	(181)	(25)	—	(206)	—	(105)	(281)	—	—	(386)	

For the year ended December 31.

	2022				2023				2024									
	EHang Holdings	Other subsidiaries	WFOE subsidiaries	VIE and VIE's subsidiaries	Eliminating adjustments	Consolidated totals	EHang Holdings	Other subsidiaries	WFOE subsidiaries	VIE and VIE's subsidiaries	Eliminating adjustments	Consolidated totals						
	(RMB in thousands)																	
(Loss) income before income tax	(328,221)	(291,592)	(289,047)	(38,091)	617,424	(329,527)	(301,700)	(297,035)	(296,792)	(5,242)	599,988	(300,781)	(229,776)	(233,290)	(223,630)	70,118	390,899	(225,679)
Income (loss) from equity method investment	—	—	196	—	—	196	—	—	(1,568)	8	—	(1,560)	—	—	(194)	(3,884)	(275)	(4,353)
Net (loss) income	(328,221)	(291,592)	(288,851)	(38,091)	617,424	(329,331)	(301,700)	(297,035)	(298,360)	(5,234)	599,988	(302,341)	(229,776)	(233,290)	(223,824)	66,234	390,624	(230,032)
Net loss (income) attributable to non-controlling interest	—	414	218	478	—	1,110	—	421	189	31	—	641	—	576	(320)	—	—	256
Net (loss) income attributable to ordinary shareholders	(328,221)	(291,178)	(288,633)	(37,613)	617,424	(328,221)	(301,700)	(296,614)	(298,171)	(5,203)	599,988	(301,700)	(229,776)	(232,714)	(224,144)	66,234	390,624	(229,776)

Selected Condensed Consolidated Balance Sheets Data

	2023					2024						
	Etang Holdings	Other subsidiaries	WFOE subsidiaries	VIE's subsidiaries	Eliminating adjustments	Consolidated totals (RMB in thousands)	Etang Holdings	Other subsidiaries	WFOE subsidiaries	VIE's subsidiaries	Eliminating adjustments	Consolidated totals
Cash and cash equivalents	12,239	130,316	81,582	4,113	—	228,250	180,573	257,338	166,100	6,866	—	610,877
Short-term deposits	14,397	—	—	—	—	14,397	513,683	—	—	—	—	513,683
Short-term investments	57,494	—	—	—	—	57,494	33,942	—	30,295	—	—	30,295
Restricted short-term deposits	—	—	33,942	—	—	33,942	—	—	52,074	6,106	—	58,180
Accounts receivable, net	—	543	32,607	1,636	—	34,786	—	1,917	75,236	834	(2,300)	75,687
Inventories	—	1,926	58,247	834	(1,519)	59,488	—	1,917	75,236	834	(2,300)	75,687
Prepayments and other current assets	—	5,216	15,151	4,324	—	24,691	—	1,627	62,755	3,924	(8)	68,298
Amounts due from subsidiaries, the VIE and the VIE's subsidiaries ⁽³⁾	13,697	57,278	52,215	6,161	(129,351)	—	13,697	58,567	104,153	86,496	(262,913)	—
Property and equipment, net and intangible assets, net	—	1,446	37,052	6,806	(681)	44,623	—	1,297	56,673	3,436	(1,182)	60,224
Right-of-use assets, net	—	167	74,111	250	—	74,528	—	—	128,433	—	—	128,433
Investment in subsidiaries ⁽²⁾	207,846	49,091	—	—	(256,937)	—	263,309	24,199	—	—	(287,508)	—
Others	—	2,919	17,898	6,621	(992)	26,446	—	2,919	21,284	15,830	(1,212)	38,821
Total assets	305,673	248,902	402,805	30,745	(389,480)	598,645	971,262	347,864	697,003	123,492	(555,123)	1,584,498
Short-term bank loans	—	—	—	—	—	69,798	—	—	15,750	—	—	64,250
Short-term debt	—	—	—	—	—	—	—	—	50,000	—	—	(50,000)
Amounts due to the Company, subsidiaries, the VIE and the VIE's subsidiaries ⁽³⁾	3,435	24,098	25,603	76,215	(129,351)	—	76	74,878	105,780	82,179	(262,913)	—
Accounts payables	—	—	31,517	3,584	—	35,101	—	—	124,376	3,070	—	127,446
Accrued expenses and other liabilities	8,943	1,915	59,870	23,421	—	94,149	9,334	836	101,652	31,919	6,455	150,196
Contract liabilities	—	3,438	32,054	1,677	—	37,169	—	1,865	65,303	1,848	(6,455)	62,561
Long-term loans	—	—	7,000	2,308	—	9,308	—	—	13,500	7,000	—	20,500
Lease liabilities	—	167	80,486	250	—	80,903	—	—	138,246	—	—	138,246
Net interest of subsidiaries and the VIEs ⁽²⁾	79,503	79,503	79,503	—	(238,509)	—	6,209	6,209	6,209	—	(18,627)	—
Others	—	11,371	44,501	2,126	—	57,998	—	7,904	54,993	2,588	—	65,485
Total liabilities	91,881	120,492	430,332	109,581	(367,860)	384,426	15,619	91,692	675,809	128,604	(283,040)	628,684
Total shareholders' equity (deficit) ⁽²⁾	213,792	128,410	(27,527)	(78,836)	(21,620)	214,219	955,643	256,172	21,194	(5,112)	(272,083)	955,814

Selected Condensed Consolidated Cash Flows Data

For the year ended December 31.

	2022					2023					2024							
	EHang Holdings	Other subsidiaries	WFOE	VIE's subsidiaries	Eliminating adjustments	Consolidated totals	EHang Holdings	Other subsidiaries	WFOE subsidiaries	VIE's subsidiaries	Eliminating adjustments	Consolidated totals	EHang Holdings	Other subsidiaries	WFOE subsidiaries	VIE's subsidiaries	Eliminating adjustments	Consolidated totals
Net cash (used in) provided by operating activities ⁽⁵⁾	(13,738)	(24,239)	(140,108)	4,627	—	(173,458)	(18,778)	(72,341)	(12,161)	14,870	—	(88,410)	(13,165)	122,320	37,109	11,695	—	157,959
Cash Flows From Investing activities																		
Capital contribution	(58,898)	(208,484)	—	—	267,382	—	(150,255)	(500)	—	150,755	—	(79,308)	(80,516)	—	—	—	159,824	—
Redemption of short-term investments	—	141,388	—	10,000	—	151,388	—	—	—	—	—	444,759	—	—	—	—	—	444,759
Purchase of short-term investments	—	(66,807)	—	(10,000)	—	(76,807)	(56,694)	—	—	—	(56,694)	(885,706)	—	—	—	—	—	(885,706)
Proceeds received from maturity of short-term deposits	—	—	—	—	—	—	—	—	—	—	—	142,918	—	864	—	—	—	143,782
Payments for short-term deposits	—	—	—	—	—	—	(14,164)	—	—	—	(14,164)	(129,207)	—	(864)	—	—	(864)	(130,071)
Proceeds received from maturity of restricted short-term deposits	—	—	—	—	—	—	—	—	—	—	—	(33,437)	—	—	—	—	(39,486)	—
Payments for restricted short-term deposits	—	—	—	—	—	—	—	—	(33,437)	—	—	(33,437)	—	—	—	—	(39,486)	—
Other investing activities	—	1,580	(19,524)	(237)	—	(18,181)	(2)	114	(7,502)	(17,007)	—	(24,397)	—	91	(41,267)	(18,552)	—	(59,728)
Net cash provided by (used in) investing activities	(58,898)	(132,323)	(19,524)	(237)	267,382	56,400	(221,115)	(386)	(40,939)	(17,007)	150,755	(128,692)	(506,544)	(80,425)	(41,267)	(14,096)	159,824	(482,508)
Cash Flows From Financing activities																		
Capital contribution	—	58,898	208,484	—	(267,382)	—	—	150,255	500	—	(150,755)	—	—	79,308	80,516	—	(159,824)	—
Proceeds from short-term bank loans	—	—	49,794	—	—	49,794	—	69,090	—	—	69,090	—	—	54,250	10,000	—	—	64,250
Repayment of a short-term bank loan	—	—	(9,000)	(1,000)	—	(10,000)	—	(44,640)	(5,154)	—	(49,794)	—	—	(64,244)	(4,846)	—	—	(69,090)
Other financing activities	—	85	66,861	—	—	66,946	251,770	(75,586)	—	—	176,184	688,043	—	18,154	—	—	—	706,197
Net cash provided by (used in) financing activities	—	58,983	316,139	(1,000)	(267,382)	106,740	251,770	150,255	(5,154)	(150,755)	195,480	688,043	79,308	88,676	5,154	(159,824)	—	701,357
Effect of exchange rates on cash, cash equivalents and restricted cash ⁽⁵⁾	—	12,605	—	—	—	12,605	—	562	—	—	562	—	5,819	—	—	—	—	5,819

Net (decrease) increase in cash, cash equivalents and restricted cash	2022	2023	2024	2022	2023	2024	2022	2023	2024															
Cash, cash equivalents and restricted cash at the beginning of the year	72,998	137,200	28,811	8,014	—	247,023	362	52,226	185,318	11,404	—	249,310	12,239	130,316	81,582	4,113	—	228,250	180,573	257,338	166,100	6,866	—	610,877
Cash and cash equivalents at the end of the year	362	52,226	185,318	11,404	—	249,310	12,239	130,316	81,582	4,113	—	228,250	180,573	257,338	166,100	6,866	—	228,250	180,573	257,338	166,100	6,866	—	610,877

Notes:

- (1) Represents the elimination of the intercompany transactions at the consolidation level.
- (2) Represents the elimination of the investment among EHang Holdings, EHang Holdings' subsidiaries other than the WFOE, the WFOE, and the VIE and the VIE's subsidiaries.
- (3) Represents the elimination of intercompany balances among EHang Holdings, EHang Holdings' subsidiaries other than the WFOE, the WFOE, and the VIE and the VIE's subsidiaries.
- (4) For the years ended December 31, 2022, 2023 and 2024, the WFOE did not charge any service fee from the VIE as the VIE was in a cumulative loss position. For the years ended December 31, 2022 and 2023, cash paid by the WFOE to the VIE and the VIE's subsidiaries were RMB45.5 million and RMB37.2 million, respectively, which represented purchase of software and inventories. For the years ended December 31, 2024, cash received by the WFOE from the VIE and the VIE's subsidiaries was RMB4.5 million (US\$0.6 million), which represented sales of inventories. For the years ended December 31, 2022, 2023 and 2024, cash paid by the WFOE to other subsidiaries were RMB0.6 million, nil and nil, respectively, which represented purchase of inventories. For the years ended December 31, 2022, 2023 and 2024, cash paid by other subsidiaries to the WFOE were nil, RMB3.2 million and nil, respectively, which represented purchase of inventories.

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Below please find a summary of the principal risks we face, organized under relevant headings.

Risks Relating to Our Business and Industry

- Our future growth depends on the demand for, and customers' willingness to adopt, our products and air mobility solutions.
- In the jurisdictions where we, the VIE and the VIE's subsidiaries sell and plan to sell products, the commercial use of eVTOL aircraft is subject to an uncertain or lengthy approval process; we cannot predict when regulations will change, and any new regulations may impose onerous requirements and restrictions with which we, the VIE and the VIE's subsidiaries, the eVTOL aircraft and potential customers may be unable to comply. As a result, we, the VIE and the VIE's subsidiaries may be limited in, or completely restricted from, growing business in the foreseeable future.
- We may be unable to make timely product deliveries due to limited production capacity.
- Our framework and conditional agreements may not result in material sales of our products.
- We have substantial customer concentration and we have experienced a significant increase in accounts receivable.
- Our technology platform may not perform in line with customer specifications or expectations; and
- We are a relatively young company with a short operating history, and we may not be able to sustain our rapid growth, effectively manage our growth or implement our business strategies.

Risks Relating to Our Corporate Structure

- If the PRC government finds that the contractual arrangements between the WFOE, the VIE and the VIE's shareholders do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.
- We rely on contractual arrangements with the VIE and the VIE's shareholders for certain business operations in the PRC, which may not be as effective as direct ownership in providing operational control.
- Any failure by the VIE or the VIE's shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.
- The shareholders of the VIE may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.

- We may lose the ability to use and enjoy assets held by the VIE that are material to certain business operations in the PRC if the VIE goes bankrupt or becomes subject to a dissolution or liquidation proceeding.
- Our dual-class share structure with different voting rights will limit your ability to influence corporate matters and could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Risks Relating to Doing Business in China

- The PRC government’s significant oversight over our and the VIE’s business operation could result in a material adverse change in our operations and the value of the ADSs.
- Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.
- We may be adversely affected by the complexities, uncertainties and changes in PRC regulations on technology companies.
- The approval of and the filing with the CSRC or other PRC governmental authorities may be required in connection with our future offshore offerings under PRC law and if required, we cannot predict whether or how soon we will be able to obtain such approval or complete such filing.
- The ADSs will be delisted and prohibited from trading in the U.S. under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China.
- Increases in labor costs and enforcement of stricter labor laws and regulations in the PRC may adversely affect our business and our profitability.
- We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business.
- The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.

Risks Relating to the ADSs and Trading Market

- The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors.
- If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding the ADSs, the market price for the ADSs and trading volume could decline.
- The sale or availability for sale of substantial amounts of the ADSs could adversely affect their market price.
- We are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

Risks Relating to Our Business and Industry

Our future growth depends on the demand for, and customers' willingness to adopt, our products and air mobility solutions.

We operate in the new and evolving UAM industry. Our business and operating results depend in large part on the acceptance of and demand for our pilotless eVTOL aircraft and air mobility solutions. The success of these products and services are and will be subject to risks, including with respect to:

- the extent of market reception and adoption of pilotless eVTOL aircraft as transportation and logistics solutions;
- our navigating a new and evolving regulatory environment;
- our timely fulfillment of product orders;
- our ability to produce safe, high-quality and cost-effective eVTOL aircraft on an ongoing basis;
- the performance of our pilotless eVTOL aircraft relative to customer expectations and customers' interest in and demand for our pilotless eVTOL aircraft and air mobility solutions; and
- our building a well-recognized and respected brand.

Our failure to manage the risks described above may discourage current or potential customers from purchasing our products or using our commercial solutions, and there may be downward price pressure on our products and commercial solutions. If the market for eVTOL aircraft or air mobility solutions does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be materially and adversely affected.

In the jurisdictions where we, the VIE and the VIE's subsidiaries sell and plan to sell products, the commercial use of eVTOL aircraft is subject to an uncertain or lengthy approval process; we cannot predict when regulations will change, and any new regulations may impose onerous requirements and restrictions with which we, the VIE and the VIE's subsidiaries, the eVTOL aircraft and potential customers may be unable to comply. As a result, we, the VIE and the VIE's subsidiaries may be limited in, or completely restricted from, growing business in the foreseeable future.

We operate in a new and rapidly evolving industry, which is subject to extensive legal and regulatory requirements. As described below, in the jurisdictions relevant to us, the commercial use and delivery of our various eVTOL aircraft are, and in the near future are expected to continue to be, subject to an uncertain or lengthy approval process. In October 2023, December 2023, April 2024 and March 2025, we obtained the Type Certificate, the Standard Airworthiness Certificate, the Production Certificate and the Air Operator Certificate, respectively, for EH216-S from the CAAC, demonstrating that EH216-S is qualified for conducting human-carrying commercial operations and mass production. However, PRC and U.S. regulations impose significant restrictions on UAVs. We cannot predict when these regulations will change, and any new regulations may impose onerous requirements and restrictions.

In China, the Civil Aviation Administration of China, or the CAAC, published the Guidance on UAV Airworthiness Assessment Based on Operation Risks, or the UAV Airworthiness Guidance, on January 25, 2019, which is based on the assessment, classification and management of operational risks of UAVs. As we operate in the new and evolving industry, we contribute to the rules and regulations as a member of the CAAC Special Expert Taskforce. On October 29, 2021, the CAAC further published the Civil Unmanned Aircraft System Airworthiness Certification Management Procedures (Draft for Comments), Civil Unmanned Aircraft System Safety Analysis Guidelines (Draft for Comment), and Civil Unmanned Aircraft Registration Management Procedures (Draft for Comment). Such draft UAV rules mainly cover the medium UAVs weigh between 25 kilograms and 150 kilograms, and large UAVs exceed 150 kilograms in weight. We submitted an application for the EH216-S Type Certification to the CAAC in December 2020, which was accepted by the CAAC in January 2021. Our EH216-S human-carrying pilotless eVTOL aircraft, as a special category aircraft under Section 21.17 of Certification Procedures for Civil Aviation Products and Parts, or CCAR-21, is required to meet the criteria set forth in *Special Conditions for Type Certification of EH216-S Unmanned Aircraft System*, or Special Conditions, promulgated by the CAAC on February 9, 2022. The Special Conditions provided clear safety requirements for the certification of EH216-S with respect to flight performance, aircraft structures, design and manufacture, propulsion system, data link, ground control station, etc. We have passed through the Type Certification phases of Concept Design, Requirements Definition, Compliance Planning, and Demonstration and Verification of Compliance to conduct tests, including laboratory tests, ground tests and inspections, flight tests and data analysis. On May 31, 2023, the Provisional Regulation for the Flight Administration of Unmanned Aerial Vehicles was promulgated by the State Council and the Central Military Commission and came into effect on January 1, 2024, which is the first administrative regulation on the management of unmanned aerial vehicles in China that stipulates the standards and requirements to apply for the operation certificate of UAVs. In October 2023, we obtained the type certificate for EH216-S from the CAAC. This demonstrates that the EH216-S's model design complies with CAAC's safety standards and airworthiness requirements, and that the EH216-S is qualified for conducting passenger-carrying commercial operations. However, we cannot assure you that we can satisfy the relevant requirements or standards under the detailed rules or regulations to be promulgated in the future, which may materially and adversely affect our business and future prospects.

Under the *Pilot Operation Rules (Interim) for Specific Unmanned Aircraft* issued by the CAAC on February 1, 2019, or Interim Rules, to start any specific trial operation, the prospective operator of certain classes of UAVs must submit an application and be approved by the CAAC. In February 2019, we submitted an application to the CAAC for trial operation in relation to a customer's use of our EH216-S, a model of our pilotless eVTOL aircraft, for aerial logistics purpose. In May 2020, we obtained the trial operation approval from the CAAC, which expired on May 31, 2021. There can be no assurance that similar approval will be granted to the operations of other customers or of other UAVs.

Further, the VIE and the VIE's subsidiaries are required to obtain approvals from local divisions of the People's Liberation Army Air Force, or PLAAF, for proposed flight routes in connection with our business. As the approvals from the PLAAF are usually granted on a one-off basis or are only valid for a limited period of time and the local divisions of PLAAF may exercise air traffic control under certain circumstances which may restrict us from operating our eVTOL aircraft from time to time, we cannot assure you that the VIE and the VIE's subsidiaries will be able to obtain such approval for each matter on which we will work on with our customers or partners in the future. If such approval is not granted in a timely manner, we, the VIE and the VIE's subsidiaries, as well as our and their customers or partners will not be able to fly the eVTOL aircraft in the proposed flight routes.

As we sell our products internationally, we face challenges in quickly and sufficiently familiarizing ourselves with foreign regulatory environments and policy frameworks. If any new regulation is put in place, or a different interpretation of existing regulation is adopted, our ability to manufacture, market, sell or operate our products or to advertise or deliver air mobility solutions in general may be limited or otherwise affected. Failure to comply with applicable regulations or to obtain, maintain or renew the necessary permits, licenses, registrations or certificates could cause delays in, or prevent us from, manufacturing, marketing, selling and operating our products, meeting product demand and expectations, introducing new products or expanding our service coverage, and could materially and adversely affect our operation results. If we are found to be in violation of applicable laws or regulations, we could be subject to administrative punishment, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be unable to make timely product deliveries due to limited production capacity.

Commercial production of our pilotless eVTOL aircraft requires timely and adequate supply of various types of raw materials and components, as well as mass production capacity and efficient manufacturing and assembly. We have limited experience in high-volume manufacturing of our pilotless eVTOL aircraft. We cannot assure you that we will be able to expand our production capacity efficiently and cost-effectively, or to procure sufficient raw materials and components to meet our production volume. While we are looking into expanding our manufacturing capacity through partnerships, such partnerships may not be successful, or we may not be able to do so in a timely manner to fulfill our backlog orders. While we obtain components from multiple sources whenever possible, some of the components used in our products are currently selected to be purchased from a single source to improve cost- efficiency. Disruption in the supply of components, whether or not from a single-source supplier, could temporarily disrupt commercial production of our products. We also outsource certain manufacturing activities to third party contract manufacturers. We may experience operational difficulties with our contract manufacturers, including reductions in the availability of production capacity, failure to comply with product specifications, insufficient quality control, failure to meet production deadlines, increases in manufacturing costs and longer lead time.

Any of the foregoing could result in our failure to make timely deliveries to our customers. Such failure would materially and adversely affect our business, results of operations, financial condition and prospects.

Our framework and conditional agreements may not result in material sales of our products.

We have entered into a number of long-term agreements with customers and partners relating to the sale of our products. Some of these agreements are conditional, and our counterparty is not obligated to purchase our products unless a number of conditions are satisfied. Some other agreements are framework agreements containing sales targets, but that does not obligate our counterparties to purchase our products at all. We expect the number of orders and pre-orders we receive under these framework agreements to depend on a number of factors, including changes in the regulatory environment, customers' acceptance of and demand for our products and services and our production capacity. For the foregoing reasons, we may not receive substantial orders from our current or potential customers. As our long-term agreements may not result in material sales of our products, our future results of operations may not scale or otherwise meet our current expectations.

We have substantial customer concentration.

In 2022, 2023 and 2024, our largest customer accounted for 21%, 24% and 26% of our revenues, respectively. There are inherent risks whenever a large percentage of revenues are concentrated with a limited number of customers that mainly operate our pilotless eVTOL aircraft in tourism locations in China, rather than in broad, mainstream commercial operations. We are unable to predict the future level of demand for our products and/or services that will be generated by these customers. If our major customers were to cease purchasing our products or services, cancel existing orders or fail to make payments to us in a timely fashion, our business and results of operations will be materially and adversely affected.

Our technology platform may not perform in line with customer specifications or expectations.

Our technology platform, consisting of our pilotless eVTOL aircraft and other UAVs, in-flight operating systems and on-the-ground infrastructure, may not perform in line with customers' expectations. For example, our products may not be as easy to operate or maintain as customers expect. In addition, certain orders and pre-orders of our products are conditioned on their meeting defined technical specifications (such as a specified cruising speed, operational range and payload capacity) according to agreed-upon delivery timetables. See "Item 4. Information on the Company—B. Business Overview—Our Business Lines" for further details. Future customers may also require performance specifications that we are unable to deliver. Some of these target specifications, such as those dependent on battery technology, are constrained by the pace of general technological advancement and the capabilities of our suppliers, which are largely beyond our control.

Our technology platform may contain design or manufacturing defects that result in unsatisfactory performance or require repair. Our technology platform uses a substantial amount of algorithms and software to operate. Software products are inherently complex and often contain defects and errors, especially when first introduced. While we have performed extensive internal testing on our software and hardware systems, we have a limited frame of reference by which to evaluate the long-term performance of our technology platform. There can be no assurance that we will be able to detect and fix any defects in our technology platform before we, the VIE and the VIE's subsidiaries sell products and services to customers.

If our technology platform is defective or otherwise fails to perform as expected or in accordance with prescribed technical specifications and timetable, our products may experience accidents and we may suffer adverse publicity, order cancellations, revenue declines, delivery delays, product recalls, product liability claims, and significant warranty and other expenses. These consequences could have a material adverse impact on our business, financial condition, operating results and prospects.

Our reputation and the trading price of the ADSs may be negatively affected by adverse publicity or detrimental conduct against us.

Adverse publicity concerning our failure or perceived failure to comply with legal and regulatory requirements, alleged accounting or financial reporting irregularities, regulatory scrutiny and further regulatory action or litigation could harm our reputation and cause the trading price of the ADSs to decline and fluctuate significantly. For example, after Wolfpack Research, an entity unrelated to us, issued a report containing various allegations about us in February 2021, the trading price of the ADSs declined sharply. The negative publicity and the resulting decline of the trading price of the ADSs also led to the filing of three putative shareholder class action lawsuits against us and some of our senior executive officers. Though unsuccessful, these lawsuits had further negative impact on the market price of the ADSs and diverted management's attention from the day-to-day operations of our company. Additionally, in November 2023, short seller Hindenburg Research published a report containing untrue statements and misinterpretation of information regarding our business operations and financial conditions. Our audit committee has conducted an independent review of the allegations raised in the report with the assistance of independent counsel and the independent review is complete. Based on such independent review, our audit committee has concluded that the allegations in the report published by Hindenburg Research were not substantiated. The report also led to the filing of a securities class action complaint against us and certain of our officers and directors. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings." Our management and audit committee conducted additional procedures and actions to mitigate risks of the short seller allegations. However, we may be constrained in the manner in which we can proceed against the relevant short sellers by principles of freedom of speech, applicable state law or issues of commercial confidentiality.

We may continue to be the target of adverse publicity and detrimental conduct against us, including complaints, anonymous or otherwise, to regulatory agencies regarding our operations, accounting, revenues and regulatory compliance. Additionally, allegations against us may be posted on the internet by any person or entity which identifies itself or on an anonymous basis. We, the VIE and the VIE's subsidiaries may be subject to government or regulatory investigation or inquiries, or shareholder lawsuits, as a result of such third-party conduct and may be required to incur significant time and substantial costs to defend ourselves, and there is no assurance that we, the VIE and the VIE's subsidiaries will be able to conclusively refute each of the allegations within a reasonable period of time or at all. Our reputation may also be negatively affected as a result of the public dissemination of allegations or malicious statements about us, which in turn may materially and adversely affect the trading price of the ADSs.

We are a relatively young company with a short operating history, and we may not be able to sustain our rapid growth, effectively manage our growth or implement our business strategies.

We, the VIE and the VIE's subsidiaries have been providing UAV commercial solutions since 2014. Although we have experienced growth, our historical performance may not be indicative of our future performance due to our limited operating history. We are currently commercializing our products and air mobility solutions, and have a short history of accepting orders for our products and delivering them to customers for testing, training and demonstration purposes. There is only a limited historical basis for making judgments on the demand for our products and services or our ability to produce and deliver products and air mobility solutions, or to become profitable in the future.

You should consider our business and future prospects in light of the risks and challenges we face as a new entrant to a nascent industry and to overseas markets, including risks and challenges associated with our ability to:

- provide safe, convenient and effective air mobility solutions;
- maintain reliable, secure, high-performance and scalable infrastructure;
- identify suitable facilities to expand manufacturing capacity;
- navigate the evolving and complex regulatory environment across all the markets in which we operate;

- anticipate and adapt to changing market conditions, including technological developments and changes in the competitive landscape, and adjust, manage and execute our marketing and sales activities to cater to local economic and demographic conditions, cultural differences and customer preferences across all our current and future markets;
- successfully market our commercial solutions;
- improve and maintain our operational efficiency; and
- attract, retain and motivate talented employees.

If we fail to address any or all of these risks and challenges, our business may be materially and adversely affected.

As our business grows, we, the VIE or the VIE's subsidiaries may adjust our product and service offerings. These adjustments may not bring about expected results and may instead have a material and adverse impact on our financial condition and results of operations. For example, we and the VIE historically manufactured and sold consumer drones while we and the VIE were developing our pilotless eVTOL aircraft and commercial solutions. Our consumer drone business was not successful. We and the VIE gradually phased out this business to focus on more innovative products and services. Our revenue structure may continue to evolve in response to market demand. In particular, we expect the relative revenue contribution from air mobility solutions to increase and that from aerial media solutions to decrease in the foreseeable future. Our growth is dependent on the development of such new products and services. We may not accurately identify market needs before we invest in the development of a new product or a new service. In addition, we might face difficulties or delays in the development process, which may result in losses in our market share and competitive advantages.

In pursuit of our growth strategy, we, the VIE or the VIE's subsidiaries may enter into new strategic relationships to further penetrate our targeted markets. Should these relationships fail to materialize and develop into demand or orders for our products and services, or should we fail to work effectively with these companies, we may lose opportunities to generate sales growth and our business, results of operations and financial condition could be adversely affected.

Our UAVs and commercial solutions are subject to safety standards, and the failure to satisfy such mandated safety standards or failure to design, manufacture and operate safe and high-performance products and related operating systems and infrastructure would have a material adverse effect on our business and operating results.

Sales of our products must comply with applicable standards in the market where they are sold, including standards on design, manufacturing and operation. In China, for example, certain components of our products must pass various tests and undergo a certification process and be affixed with a China Compulsory Certificate, or CCC, before they can be installed on our products. We cannot assure you that we have obtained the CCC for all the components of our products that are listed in the CCC Product Catalogue. Failure to install components with a CCC may prevent us from selling the affected products and negatively affect our manufacturing and sales of our products. See "Item 4. Information on the Company—B. Business Overview—PRC Regulation" for further details. In the United States, the FAA oversees the safety of aircraft operations in the national airspace system and has the authority to grant airworthiness certificates and related exemptions to unmanned aircraft systems. If we fail to have our products satisfy applicable aerial vehicle standards in any jurisdiction where we operate, our business and operating results would be adversely affected. To achieve a high level of safety assurance, we have also established our own products safety standards. While we are committed to producing safe and high-quality products, there can be no assurance that our safety technology will be effective in preventing incidents related to product safety, such as accidents involving our products. Failure to ensure the safe operation of our products will affect our reputation and the sales of our products, which will ultimately adversely affect our business operation and financial results.

We have incurred, and in the future may continue to incur, net losses.

We have incurred net losses in the past. In 2022, 2023 and 2024, we had net losses of RMB329.3 million, RMB302.3 million and RMB230.0 million (US\$31.5 million), respectively. We had net operating cash outflows of RMB173.5 million and RMB88.4 million in 2022 and 2023, respectively, and net operating cash inflows of RMB158.0 million (US\$21.6 million) in 2024. We expect our net losses to decrease in future periods as we continue to expand our business and operations. See "Item 5. Operating and Financial Review Prospect—B. Liquidity and Capital Resources" for more information on our liquidity and capital resources. We also expect to incur substantial costs and expenses as a result of being a public company.

We cannot assure you that we will be able to generate net profits or positive operating cash flows in the future. Our ability to achieve profitability depends in large part on, among other factors, our ability to increase orders and sales of our eVTOL aircraft and other UAVs, commercial solutions and services, achieve economies of scale, establish effective pricing strategies, effectively navigate the regulatory environments in different jurisdictions, and increase operational efficiency. If we are unable to generate adequate revenues or effectively manage our expenses, we may continue to incur significant losses in the future and may not be able to achieve or subsequently maintain profitability.

We may not be successful in competing in the UAV industry.

We operate in the UAV industry and provide various commercial solutions, including air mobility (consisting of human transportation and logistics), smart city management and aerial media solutions. In addition to competing with other UAV companies, we compete with traditional industry players providing similar solutions, such as aircraft and ground transportation service providers. Many of our current and potential competitors, particularly international competitors, have significantly greater financial, technical, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products.

We expect competition in our industry to intensify in the future in light of increased demand for alternative transportation, continuing globalization and consolidation in the global UAV industry. Factors affecting competition include, among others, ability to innovate, development speed, product quality, reliability, safety and features, pricing and customer service. Increased competition may lead to lower product unit sales and increased inventory, which may result in downward price pressure and adversely affect our business, financial condition, operating results and prospects.

Our ability to successfully compete in our industry will be fundamental to our future success in existing and new markets and will affect our market share. If our competitors introduce products or services that are superior in quality or performance and/or lower in price compared with our offerings, we may lose existing customers or be unable to attract new customers at prices that would allow us to generate attractive rates of return on our investment, if at all.

Any significant cybersecurity incident or disruption to our operating systems, command-and-control centers, or information systems and infrastructure could subject us to significant reputational, financial, legal and operational consequences.

We depend on our and the VIE's integrated in-flight operating systems and on-the-ground infrastructure to operate our products and services. Any material disruption to or slowdown of our operating systems or infrastructure could cause our products to malfunction or result in outages or delays in our services, which could harm our brand and adversely affect our operating results.

Our command-and-control systems rely on our proprietary cloud database, which can store all of the data collected under our clients' approvals. Problems with our command-and-control systems or our telecommunications network providers could adversely affect our services and products. Our telecommunications network providers could decide to cease providing services to us without adequate notice. Any change in service levels of our telecommunications network or any errors, defects, disruptions or other performance problems with our operating systems or infrastructure could harm our brand and potentially affect our user data. If changes in technology cause our operating systems or infrastructure to become obsolete, or if our operating systems or command-and-control systems are inadequate to support our growth, we could lose customers, and our business and operating results could be adversely affected.

We could be subject to breaches of security by hackers. Although we proactively employ multiple measures to defend our systems against intrusions and attacks, our measures may not prevent unauthorized access or use of sensitive data. A breach of our UAV operating systems or command-and-control systems may result in product damages, data losses and, in extreme cases, accidents or hijacking of our UAVs to perform unlawful activities.

A cybersecurity breach could harm our reputation and deter our customers and potential customers from using our products. In addition, any such breach could cause us to incur costs to correct the breaches or failures, expose us to uninsured liability, increase our risk of regulatory scrutiny, subject us to lawsuits and result in the imposition of material penalties and fines.

In addition, we rely on information technology systems that we or our third-party providers operate to process, transmit and store electronic information in our day-to-day operations. A successful cyberattack or other cybersecurity incident could result in the theft or destruction of our operational, financial and other data, or other misappropriation of assets, or otherwise compromise our confidential or proprietary information and disrupt our operations. Cybersecurity incidents are increasing in their frequency, sophistication, level of persistence and intensity, and are being conducted by sophisticated and organized groups and individuals with a wide range of motives and expertise. Cyberattacks could include wrongful conduct by hostile foreign governments, industrial espionage, wire fraud and other forms of cyber fraud, the deployment of harmful malware, denial-of-service, ransomware, social engineering fraud or other means to threaten data security, confidentiality, integrity and availability. For example, in July 2023, we experienced a cybersecurity incident that caused a temporary disruption in accessing specific approval processes within our internal and independently functioning approval OA system. To mitigate the impact, we undertook several measures, including promptly restored a backup version. The OA system has no direct interface with other operational or financial systems, and no sensitive data leakage was reported up to the date of this annual report. We believe the impacts of the cybersecurity incident were immaterial. We may also experience cybersecurity incidents that may remain undetected for an extended period. A successful cyberattack could cause serious negative consequences for us, including, without limitation, the disruption of operations, the misappropriation of confidential business information, including financial information, trade secrets, financial loss and the disclosure of corporate strategic plans. Although we devote resources to protect our information systems, we realize that cybersecurity incidents are a threat, and there can be no assurance that our efforts will prevent cybersecurity incidents that would result in business, legal, financial or reputational harm to us, or would have a material adverse effect on our results of operations and financial condition.

An accident involving a UAV provided by us or another manufacturer could harm the UAV industry.

An accident involving a UAV provided by us or another manufacturer could cause regulatory agencies around the world to tighten restrictions on the use of UAVs, particularly over-populated areas, and could cause the public to lose confidence in our products and UAVs generally. There are risks associated with autopilot, flight control, communications and other advanced technologies, and, from time to time, there have been accidents associated with these technologies. The safety of certain cutting-edge technologies depends in part on user interaction, and users may not be accustomed to using such technologies. We, the VIE or the VIE's subsidiaries could face unfavorable and tightened regulatory control and intervention on the use of autopilot and other advanced technologies and be subject to liability and government scrutiny to the extent accidents associated with our autonomous navigation systems occur. Should a high-profile accident occur resulting in substantial casualty or damages, either involving our UAVs or products offered by other companies, public confidence in and regulatory attitudes toward UAVs could deteriorate. Any of the foregoing could materially and adversely affect our results of operations, financial condition and growth prospects.

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

Our products may not perform in line with customers' expectations. Any product defects, accidents or any other failure of our products to perform as expected could harm our reputation and result in adverse publicity, revenue loss, delivery delays and product recalls, which could harm our brand and reputation. Any product recall or lawsuit seeking significant monetary damages either in excess of or outside of our insurance coverage may have a material adverse effect on our business and financial condition. In the future, we may, voluntarily or involuntarily, initiate a recall if any of our products, including any systems or components sourced from our suppliers, prove to be defective or noncompliant with applicable laws and regulations. Such recalls, whether voluntary or involuntary and whether caused by systems or components engineered or manufactured by us or our suppliers, could incur significant expenses and adversely affect our brand image in our target markets. They may also inhibit or prevent commercialization of our current and future product candidates.

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

We may be exposed to significant product liability claims if our products do not perform as expected or malfunction. Any defects, errors, or failures in our products or the misuse of our products, operating systems and infrastructure could also result in injury, death or property damage. Our risks in this area are particularly pronounced given we have limited field experience in the operation of our products. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of our current and future models. Our insurance coverage might not be sufficient to cover all potential product liability claims. In addition, the same level of insurance coverage may not be available in the future at economical prices, or at all. Even if we are fully insured as it relates to a claim, the claim could nevertheless diminish our brand and divert management's attention and resources, which could have a negative impact on our business, financial condition and result of operations.

We generally provide standard warranties on our products. The term of a warranty is between six months to three years, depending on the product line and the specific part or component. The occurrence of any material defects in our products could make us liable for damages and warranty claims. In addition, we could incur significant costs to correct any defects or other problems, including costs related to product recalls. Warranty claims may also lead to litigation. Any negative publicity related to the perceived quality of our products could affect our brand image, decrease retailer, distributor and customer demand, and adversely affect our operating results and financial condition.

If we fail to successfully develop and commercialize new products, services and technologies that are well received by customers, our operating results may be materially and adversely affected.

Our future growth depends on whether we can continually develop and introduce new generations of our existing product lines and update our operating systems and infrastructure with enhanced functionalities and value-added services. This is particularly important in the current industry landscape where technologies and consumer preferences evolve rapidly, which may shorten the lifecycles of our existing products. We plan to upgrade our current models and introduce new models in order to continue to provide products with the latest technologies. As technological advancements can be complex and costly, we could experience delays in the development and introduction of new products and services in the future.

Our ability to roll out new and innovative products and services depends on a number of factors, including significant investments in research and development, quality control of our products and services and effective management of our supply chain. We may need to devote more resources to the research and development of new or enhanced products, services and technologies, which may reduce our profitability. In addition, our research and development efforts may not yield the benefits we expect to achieve in a timely manner, or at all. To the extent that we are unable to execute our strategy of continuously introducing new and innovative products, diversifying our product portfolio and satisfying consumers' changing preferences, we may not be able to grow our user base, and our competitive position and results of operations may be adversely affected. Even if we are able to keep up with technological changes and develop new models, our prior models may as a result become obsolete sooner than expected, potentially reducing our return on investment.

We have limited experience in managing sales to multiple countries and we are subject to a variety of costs and risks due to our continued international expansion.

We delivered four, six and eight EH216 series products abroad in 2022, 2023 and 2024, respectively. We have entered into sales contracts with customers outside China. In 2022, we delivered our EH216 series products to customers in Sweden, Mexico and Israel. In 2023, we delivered our EH216 series products to customers in Japan, Brazil, Columbia, Saudi Arab and Qatar. In 2024, we delivered our EH216 series products to customers in Japan, Brazil, the United Arab Emirates and the Dominican Republic. As international expansion is one of our core strategies, we expect our international sales to increase in the future. In markets outside China, we generally have less experience in marketing, selling and deploying our products. International expansion has required and will continue to require us to invest significant capital and other resources, and our efforts may not be successful. International sales and operations are subject to risks such as:

- limited brand recognition;

- costs associated with establishing new distribution networks;
- difficulty in finding qualified partners for overseas distribution;
- inability to anticipate changes in local market conditions, economic landscapes, and consumers' preferences and customs;
- difficulties in staffing and managing foreign operations;
- lack of familiarity with and understanding of the local legal, regulatory and policy frameworks, as well as burdens of complying with a wide variety of local laws and regulations, including those governing personal data protection and safety control;
- political and economic instability;
- trade restrictions;
- differing employment laws and practices, as well as potential labor disruptions;
- the imposition of government controls;
- lesser degrees of intellectual property protection;
- tariffs and customs duties and the classifications of our goods by applicable governmental bodies; and
- a legal system subject to undue influence or corruption.

Additionally, to export our products to certain jurisdictions, we may face challenges in coordinating with both PRC and the applicable foreign governments and regulatory authorities. If we cannot export our products to such jurisdictions, our business, prospects, financial condition and operating results may be materially and adversely impacted.

The failure to manage any of these risks could negatively affect our international business and consequently our overall business and operating results. In addition, the concern over these risks may also prevent us from entering into, or marketing, selling or releasing certain of our products and commercial solutions and related services in, certain markets.

We may rely on some third-party distributors for sales, marketing and distribution activities relating to our products.

Currently we do not rely on any third-party distributors for sales, marketing and distribution activities relating to our products. However, some of our business partners act as third-party distributors that sell, market and distribute our products to their customers. Accordingly, we may be subject to a number of risks associated with third-party distributors, including a lack of day-to-day control over the activities of third-party distributors selling or using our products and solutions; third-party distributors may terminate their arrangements with us on limited or no notice, or may change the terms of these arrangements in a manner that is unfavorable to us for reasons outside of our control; and any disagreements with our third-party distributors could lead to costly and time-consuming litigation or arbitration. If we fail to establish and maintain satisfactory relationships with our third-party distributors, we may not be able to sell, market and distribute our products according to our internal budget and plans, our future revenues and market share may not grow at a pace that we expect, and we could be subject to increases in sales and marketing and other costs which would harm our results of operations and financial condition.

Our operations may be interrupted by production difficulties or delays due to mechanical failures, utility shortages or stoppages, fire, natural disaster or other calamities at or near our facilities.

Production difficulties, such as capacity constraints, mechanical and systems failures and the need for equipment upgrades, may suspend our production and/or reduce our output. There can be no assurance that we will not experience problems with our production facilities in the future or that we will be able to address any such problems in a timely manner. Problems with key equipment in one or more of our production facilities may affect our ability to produce our products or cause us to incur significant expenses to repair or replace such equipment. Scheduled and unscheduled maintenance programs may affect our production output. Any of these could have a material adverse effect on our business, financial condition, results of operations and prospects.

We depend on a continuous supply of utilities, such as electricity and water, to operate our production facilities. Any disruption to the supply of electricity or other utilities may disrupt our production, or cause the deterioration or loss of our inventory. This could adversely affect our ability to fulfill our sales orders and consequently may have an adverse effect on our business and results of operations.

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

Our customers may experience service failures or interruptions due to defects in the software, infrastructure, components or engineering system that compromise our products and services, or due to errors in product installation, any of which could harm our business.

Our products and services may contain undetected defects in the software, infrastructure, components or engineering system. Sophisticated software and applications, such as those adopted and offered by us, often contain “bugs” that can unexpectedly interfere with the software and applications’ intended operations. Our internet services may from time to time experience outages, service slowdowns or errors. Defects may also occur in components or processes used in our products or for our services.

There can be no assurance that we will be able to detect and fix all defects in the hardware, software and services we offer. Failure to do so could result in decreases in sales of our products and services, lost revenues, significant warranty and other expenses, decreases in customer confidence and loyalty, losing market share to our competitors, and harm to our reputation.

Our success depends on the continuing efforts of our key employees, including our senior management members and other key personnel. If we fail to hire, retain and motivate our key employees, we could lose the innovation, collaboration and focus that contribute to our business.

We believe that our success depends substantially on the continued efforts of our key employees, including our senior management members and other qualified and key personnel. We rely on our executive officers, senior management and key employees to generate business and execute programs successfully. In addition, the relationships and reputation that members of our management and key employees have established and maintain with government personnel contribute to our ability to maintain good customer relations and to identify new business opportunities. The loss of any key personnel or our failure to attract additional talent could reduce our employee retention, disrupt our research and development activities and operations, and impair our revenue growth and competitiveness. If one or more of our executive officers or key employees were unable or unwilling to continue their services with us, we might not be able to replace them easily, in a timely manner, or at all, and we might lose the innovation, collaboration and focus that contribute to our business.

Our business and prospects depend significantly on our ability to build our EHang brand.

Our business and prospects are heavily dependent on our ability to build, maintain and strengthen the EHang brand. If we do not continue to establish, maintain and strengthen our brand, we may lose the opportunity to build a critical mass of customers. Promoting and positioning our brand will likely depend significantly on our ability to provide high-quality products and commercial solutions and engage with our customers as intended. In addition, we expect that our ability to develop, maintain and strengthen the EHang brand will also depend heavily on the success of our user development and branding efforts. Such efforts mainly include building a community of engaged online and offline users as well as other branding initiatives, such as product shows and events. To promote our brand, we may be required to change our user development and branding practices, which could result in substantially increased expenses. If we do not develop and maintain a strong brand, our business, prospects, financial condition and operating results will be materially and adversely impacted.

Our EHang brand could be subject to adverse publicity if incidents related to our products occur or are perceived to have occurred, whether or not we are at fault. In particular, given the popularity of social media, including WeChat and Weibo in China, any negative publicity, regardless of its truthfulness, could quickly proliferate and harm consumer perceptions of and confidence in our brand. Furthermore, we may be affected by adverse publicity related to our manufacturing or other partners, whether or not such publicity is related to their collaboration with us. Our ability to successfully position our brand could also be adversely affected by perceptions of the quality of our partners' products and services. In addition, from time to time, our products and commercial solutions are evaluated and reviewed by third parties. Any unfavorable reviews could adversely affect consumer perceptions of our products and commercial solutions.

Weather and seasonality may have a material adverse effect on our operations.

Our sales of products and commercial solutions may be affected by weather and seasonality. Our commercial solutions are mainly delivered outdoor. Customers may choose alternative transportation in severe weather conditions in consideration of safety factors, even if our products are able to endure such conditions. As a result, our business, financial condition and operating results may be materially and adversely impacted by the weather conditions. Our operating results may vary from period to period due to many factors, including seasonal factors that may have an effect on the demand for our commercial solutions in the future. As a result, our quarterly results of operations and financial position at the end of a particular quarter may not necessarily be representative of the results we expect at year-end or in other quarters of a year. Our operating results would suffer if we did not achieve revenues consistent with our expectations due to seasonal demand and weather changes because many of our expenses are based on anticipated levels of annual revenues.

Any decline in the business of our business partners or the deterioration of our relationship with them could have a material adverse effect on our operating results.

We collaborate with various business partners to promote our products and commercial solutions. There can be no guarantee that those business partners will continue to collaborate with us in the future. If we are unable to maintain good relationships with our business partners, or the business of our business partners declines, the reach of our products and services may be adversely affected and our ability to maintain and expand our user base may decrease.

Most of the agreements with our business partners do not prohibit them from working with our competitors or from offering competing services. If our partners change their standard terms and conditions in a manner that is detrimental to our business, or if our business partners decide not to continue working with us, or choose to devote more resources to supporting our competitors or their own competing products, we may not be able to find a substitute on commercially favorable terms, or at all, and our competitive advantages may diminish.

We rely on external suppliers for raw materials and certain key externally sourced components and parts used in the assembly of our products, and have limited control over the quality of these components and parts.

We purchase certain key externally sourced components and raw materials, such as computers chips, batteries, motors and electronic displays, from external suppliers for use in our assembly, production and operations of our products. A continuous and stable supply of components and raw materials that meet our standards is crucial to our assembly, production and operations. We cannot assure you that we will be able to maintain our existing relationships with our suppliers and continue to be able to stably source key components and raw materials at reasonable prices, or at all. We have integrated our suppliers' technologies within our products such that having to change to an alternative supplier may cause significant disruption to our operations. The supply of key components could be interrupted for any reason, or there could be significant increases in the prices of these key components. Additionally, changes in business conditions, force majeure, governmental changes and other factors beyond our control, or that we do not presently anticipate, could also affect our suppliers' ability to deliver components to us on a timely basis. If any of these events occurs, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We cannot guarantee that the quality of components and parts manufactured by external suppliers will be consistent and maintained at a high standard. Any defects of or quality issues with these components or any noncompliance incidents associated with these third-party suppliers could result in quality issues with our products and hence compromise our brand image and results of operations. In extreme situations, we may be exposed to liabilities as a result of significant damages caused by certain components from external suppliers and we cannot assure you that we will be able to obtain sufficient insurance coverage at an acceptable cost in the future. A successful claim brought against us in excess of our available insurance coverage may have a material adverse effect on our business, financial condition and operating results.

Safety issues or public perceptions of safety issues concerning lithium-ion batteries could have a material adverse impact on our business.

The battery packs installed on our products make use of lithium-ion cells. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials as well as other lithium-ion cells. While the battery packs used for our products are designed to passively contain any single cell's release of energy without spreading to neighboring cells, a field or testing failure of our products could occur, which could result in accidents, casualty or damages, and subject us to lawsuits, product recalls, and/or redesign efforts. Also, negative public perceptions regarding the suitability of lithium-ion cells for aircraft applications or any future incident involving lithium-ion cells, even if such incident does not involve our products, could seriously harm our business. In addition, we store a significant number of lithium-ion cells at our facilities. Any mishandling of battery cells may cause disruption to the operation of our facilities. While we have implemented safety procedures related to the handling of the cells, a safety issue or fire related to the cells could disrupt our operations. Such damage or injury could lead to adverse publicity and potentially a safety recall.

We rely on third-party logistics providers to deliver our domestic sales orders and certain overseas orders. Inadequate third-party logistics services or failure to mitigate the risks of damage or disruption to our distribution logistics could adversely affect our business.

Our ability to transport and sell our products is critical to our success across our operations. We typically rely on third-party logistics service providers to deliver our domestic sales orders and certain overseas orders. Damage or disruption to our distribution logistics due to disputes, weather, natural disasters, fire, explosions, terrorism, pandemics or labor strikes could impair our ability to distribute or sell our products. Inadequate third-party logistics services could also potentially disrupt our distribution and sales and compromise our business reputation. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition and results of operations, as well as require additional resources to restore our supply chain.

If we fail to comply with environmental protection and work safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We are subject to numerous environmental protection and work safety laws and regulations. For more details, see “Item 4. Information on the Company—B. Business Overview—PRC Regulation—Environmental Protection and Work Safety.” We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations. Environmental and social laws and regulations have tended to become increasingly stringent. There has been increased global focus on environmental and social issues and it is possible that China may potentially adopt more stringent standards or new regulations in these areas. To the extent regulatory changes occur in the future, they could result in, among other things, increased costs to our company. In addition, we may incur substantial costs in order to comply with current or future environmental protection and work safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

If our business partners, contractors, suppliers, sales agents, dealers or third-party logistics services providers fail to use ethical business practices and comply with applicable laws and regulations, our brand image could be harmed due to negative publicity beyond our own control.

Our reputation is sensitive to allegations of unethical business practices. We do not control the business practices of our business partners, independent contractors and suppliers, sales agents, dealers or third-party logistics services providers. Accordingly, we cannot guarantee their compliance with ethical business practices, such as environmental responsibilities, fair wage practices, and compliance with child labor laws, among others. A lack of demonstrated compliance could lead us to seek alternative suppliers, sales agents or dealers, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations. Violation of labor or other laws by our suppliers, business partners, sales agent, dealers or third-party logistics services suppliers or the divergence of their labor or other practices from those generally accepted as ethical in the markets in which we do business could also attract negative publicity, diminish our brand image and reduce demand for our products and commercial solutions.

If customers modify our products or operating systems, the products may not operate properly, which may cause damage, create negative publicity and harm our business.

Our customers may try to modify our products or operating systems for various reasons, which could compromise the performance and safety of our products, as well as the safety of their passengers. During such modifications, they may use third-party parts that may not be compatible with our products. We do not test, nor do we endorse, such modification. In addition, the use of improper external cabling or unsafe charging outlets can expose our customers to injury from product malfunctioning. Any injuries or damages resulting from such modifications or misuses could result in adverse publicity, which would negatively affect our brand and harm our business, prospects, financial condition and operating results.

A new health epidemic could significantly disrupt our operations and adversely affect our results of operations.

Our business could be significantly affected by public health epidemics that may hit China and/or other countries where we sell our products, such as the outbreak of coronavirus, avian influenza, severe acute respiratory syndrome, or SARS, Zika virus, Ebola virus or other disease. For example, the severity of the past COVID-19 pandemic resulted in lock-downs, travel restrictions and quarantines imposed by governments across the world and materially affected general commercial activities on a global scale. In 2022, we experienced delayed fulfillments from suppliers as well as reduced demand for our products from the tourism sector, which suffered disproportionately from the pandemic. The majority of our revenue generated from sales of the EH216 series products are from a limited number of customers that mainly operate our products in tourism locations in China, rather than in broad, mainstream commercial operations. Therefore, in 2021 and 2022, we faced delayed collection of our accounts receivable from some of our customers later than the due dates. A COVID-19 outbreak may result in these customers ceasing purchases, canceling or reducing orders for our products or services, or failing to make payments owed to us in a timely manner or at all, which may materially and adversely impact our business and result of operations. The COVID-19 pandemic had caused an economic downturn in many countries. Such general economic slowdown may reduce the demand for our products and services. Any future outbreak of a contagious disease, and other adverse public health developments may restrict economic activities in affected regions, resulting in reduced business volume, temporary closure of our production facilities and offices or otherwise disrupt our business operations and adversely affect our results of operations.

Heightened tensions in international relations, particularly between the United States and China, may adversely impact our business, financial condition, and results of operations.

Recently there have been heightened tensions in international relations, particularly between the United States and China. These tensions have affected both diplomatic and economic ties among countries. Heightened tensions could reduce levels of trade, investments, technological exchanges, and other economic activities between the major economies. The existing tensions and any further deterioration in the relationship between the United States and China may have a negative impact on the general, economic, political, and social conditions in both countries and, given our reliance on the Chinese market, adversely impact our business, financial condition, and results of operations.

On August 9, 2023, the Biden administration released an executive order and an advanced notice of proposed rule-making, or the ANPRM, providing a conceptual framework for outbound investment controls focused on China. Further to this ANPRM, on June 21, 2024, the U.S. Department of the Treasury, or the Treasury, issued a proposed rule on outbound U.S. investments involving China that generally follows the ANPRM. On October 28, 2024, the Treasury issued a Final Rule to implement the executive order of August 9, 2023. The Final Rule became effective on January 2, 2025. The Final Rule targets investments involving persons and entities associated with “countries of concern,” including China, and it imposes investment prohibition and notification requirements on a wide range of investments in companies engaged in certain types of activities relating to three sectors: (1) advanced microchips and microelectronics, (2) quantum computing, and (3) artificial intelligence systems, or collectively the Covered Activities, with persons from countries of concern engaged in these Covered Activities defined as “Covered Foreign Persons.” Investments by U.S. persons subject to the Final Rule, which are defined as “covered transactions,” include acquisitions of equity interests, certain debt financing, joint ventures, and certain investments as a limited partner in a non-U.S. person pooled investment fund. The Final Rule excludes some investments from the scope of covered transactions, including those in publicly traded securities listed on a national stock exchange. The Final Rule is aimed at exerting greater U.S. government oversight over U.S. direct and indirect investments involving China, and may introduce new hurdles and uncertainties for cross-border collaborations, investments, and funding opportunities of China-based issuers including us. We do not believe we are a Covered Foreign Person under the Final Rule. However, if we were to be deemed a Covered Foreign Person engaged in Covered Activities, the Final Rule could limit our ability to raise capital from U.S. investors generally, in which case our ability to raise such capital may be significantly and negatively affected, which could be detrimental to our business, financial condition and prospects.

In addition, on February 21, 2025, U.S. President Donald J. Trump issued a memo entitled the “America First Investment Policy,” or the America First Memo. The America First Memo states that Executive Order 14105 is under review by President Trump’s administration and that the review will consider new or expanded restrictions on United States outbound investment in the PRC in sectors such as semiconductors, artificial intelligence, quantum, biotechnology, hypersonics, aerospace, advanced manufacturing, directed energy, and other areas implicated by the PRC’s national Military-Civil Fusion strategy. The America First Memo also states that the review will consider applying restrictions on a range of investment types including investments in publicly traded securities from sources including pension funds, university endowments and other limited partner investors. If related regulatory requirements are imposed in the future, they could be detrimental to U.S.-China relations, which may adversely affect our business, financial condition and prospects.

We, the VIE and the VIE’s subsidiaries may need to defend ourselves against claims of intellectual property infringement, which may be time-consuming and costly.

Companies, organizations or individuals, including our competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop, sell or market our products, operating systems and infrastructure or their components, which could make it more difficult for us to operate our business. Companies holding patents or other intellectual property rights may bring suits alleging infringement of such rights by us, the VIE or the VIE’s subsidiaries or otherwise assert their rights against us, the VIE or the VIE’s subsidiaries. Moreover, our, the VIE’s or its subsidiaries’ applications and uses of trademarks relating to design, software or artificial intelligence technologies could be found to infringe upon existing trademark ownership and rights. We, the VIE or the VIE’s subsidiaries may also fail to apply for key trademarks in a timely manner. For example, there are some precedent registrations by several other Chinese companies of the trademark “亿航” (the Chinese characters for our brand, “EHang”) for vehicles and bicycles, which fall into the same class of products as remote aerial vehicles and aerospace transportation. Although we received a favorable judgement in a proceeding relating to such precedent registrations, we may continue to face intellectual property infringement claims in the future.

If we, the VIE or the VIE's subsidiaries are determined to have infringed upon a third party's intellectual property rights, the VIE or the VIE's subsidiaries may be required to do one or more of the following:

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

In the event of a successful claim of infringement against us, the VIE or the VIE's subsidiaries and our, the VIE's or its subsidiaries' failure or inability to obtain a license to the infringed technology or other intellectual property right, our business, prospects, operating results and financial condition could be materially and adversely affected. In addition, any litigation or claims, even if frivolous, could result in substantial costs, negative publicity and diversion of resources and management attention.

Our or the VIE's intellectual property rights may not protect us effectively.

As of March 31, 2025, we and the VIE together owned 476 issued patents, 270 pending patent applications, 682 registered trademarks, and 25 registered copyrights in relation to our and the VIE's technologies. We cannot assure you that our or the VIE's pending patent applications will be granted. Even if our or the VIE's applications are successful, patents may be contested, circumvented or invalidated in the future.

In addition, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages. The claims under any patents that are issued from our or the VIE's patent applications may not be broad enough to prevent others from developing technologies that are similar or that achieve results similar to ours or the VIE's. It is also possible that the intellectual property rights of others could bar us or the VIE from licensing and exploiting any patents that are issued from our or the VIE's pending applications. Numerous patents and pending patent applications owned by others exist in the fields in which we and the VIE have developed and are developing our technologies. These patents and patent applications might have priority over our or the VIE's patent applications and could subject our or the VIE's patent applications to invalidation. Finally, in addition to those who may claim priority, any of our or the VIE's existing or pending patents may also be challenged by others on the basis that they are otherwise invalid or unenforceable.

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

Failure to safeguard personal information could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.

Through our UAVs, app and command-and-control systems, we log information about each UAV's use, such as charge time, battery usage, mileage and location information, in order to aid us in vehicle diagnostics, repair and maintenance, as well as to help us customize and optimize the flying experience. Images and videos captured by cameras attached to our UAVs are stored on our servers, servers of third-party cloud storage providers or other servers designated by our customers. We, therefore, process, including but not limited to collect, store, process, use, transfer, provide, disclose and delete, personal data from our users in order to better understand and serve our users. Such personal data processing also enables our content feeds recommendation. Possession and use of our users' flying behavior and data in conducting our business may subject us to legislative and regulatory oversight in China and other jurisdictions, such as the European Union and the United States. For example, in January 2018, the European Union promulgated the General Data Protection Regulation to further protect fundamental rights in privacy and personal information so that members of the general public have more control over their personal information. Regulations in relevant jurisdictions may require us to obtain user consent for the collection of personal information, restrict our use of such personal information and hinder our ability to expand our user base. In the event of a data breach or other unauthorized access to our user data, we may have obligations to notify users about the incident and we may need to provide some form of remedy for the individuals affected by the incident.

Concerns or claims about our practices with regard to the processing of personal information or other privacy-related matters, even if unfounded, could damage our reputation and results of operations. In the PRC, governmental authorities have enacted a series of laws and regulations to enhance the protection of privacy and data. The PRC Constitution, the PRC Criminal Law, the Civil Code of the PRC, the Cybersecurity Law of the PRC and relevant regulations require network operators, which may include us, to ensure the security and stability of the services provided via network and protect individual privacy and the security of personal data in general by requiring the consent of internet users prior to the processing of their personal data. Under the Cybersecurity Law, the owners and administrators of networks and network service providers are subject to various personal information security protection obligations, including restrictions on the collection and use of personal information of users, and they are required to take steps to prevent personal data from being divulged, stolen, or tampered with. Regulatory requirements regarding the protection of personal information are constantly evolving and can be subject to differing interpretations or significant changes, making the extent of our responsibilities in that regard uncertain. For example, on June 10, 2021, the Standing Committee of the National People's Congress, or SCNPC, promulgated the *Data Security Law of the People's Republic of China*, or the Data Security Law, effective from September 1, 2021. The Data Security Law provides that data processing activities that affects or may affect national security shall be subject to a data security review procedure. On July 6, 2021, the General Office of the CPC Central Committee and the General Office of the State Council jointly promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities, which called for a heightened scrutiny over overseas-listed China-based companies of their compliance with the laws and regulations regarding data security, cross-border data flow and management of confidential information, and such laws and regulations are expected to undergo further changes, which may require increased information security responsibilities and stronger cross-border information management mechanism and process. We may need to adjust our business to comply with data security requirements and other laws and regulations from time to time.

On August 20, 2021, the SCNPC promulgated the *Personal Information Protection Law of the People's Republic of China*, or the Personal Information Protection Law, which integrates the scattered rules with respect to personal information rights and privacy protection and took effect on November 1, 2021. We may be required to make further adjustments to our business practices to comply with the personal information protection laws and regulations.

On November 14, 2021, the CAC publicly solicited opinions on *the Administration Regulations on Cyber Data Security (Draft for Comments)*, or the Draft Data Security Regulations. On September 24, 2024, PRC State Council promulgated the *Administration Regulations on Cyber Data Security*, or the Cyber Data Security Regulation, which became effective on January 1, 2025. The Cyber Data Security Regulation stipulates that network data processors processing personal information of more than 10 million users shall also comply with the provisions governing important data processor, including but not limited to: important data processor shall specify the person in charge of network data security and the management body for network data security. The management body for network data security shall perform the following responsibilities of network data security protection: (a) formulating and implementing network data security management systems and operation procedures as well as emergency response plans for network data security incidents; (b) organizing activities such as network data security risk monitoring, risk assessment, emergency drills, publicity, education and training on a regular basis, and promptly disposing of network data security risks and incidents; and (c) accepting and handling complaints and reports about network data security. In addition, the person in charge of network data security shall have professional knowledge of network data security and relevant management experience and shall be a member of the management team of the network data processor, with the right to directly report the situation of network data security to the relevant competent authority. Any failure, or perceived failure to maintain the security of our user data or to comply with applicable PRC or foreign privacy, data security and personal information protection laws and obligations may result in civil or regulatory liability, including governmental or data protection authority enforcement actions and investigations, fines, penalties, enforcement orders requiring us to cease operating in a certain way, litigation, or adverse publicity, and may require us to expend significant resources in responding to and defending allegations and claims.

On December 31, 2021, the CAC, together with other regulatory authorities, published the *Administrative Provisions on Algorithm Recommendation for Internet Information Services*, or the Administrative Provisions on Algorithm Recommendation, effective on March 1, 2022. Pursuant to the Administrative Provisions on Algorithm Recommendation, users should be given an option to easily turn off algorithm recommendation services, and service providers shall, among others, establish and improve the management systems and technical measures for algorithm driven recommendation mechanism and regularly review, evaluate and verify the principle, models, data and application results of algorithms. The Company will closely monitor the regulatory development and adjust its business operation from time to time to comply with the regulations over algorithm.

Pursuant to the National Security Law issued by SCNPC on July 1, 2015, the state shall establish a national security review and supervision system to review, among other things, foreign investment, key technologies, internet and information technology products and services, and other important activities that are likely to impact national security of China. On December 28, 2021, the CAC together with other regulatory authorities officially announced the Cybersecurity Review Measures, which is consistent with the Cybersecurity Review Measures (Revision Draft for Comment) announced by the CAC on July 10, 2021. Pursuant to the Cybersecurity Review Measures, the procurement of network products and services by critical information infrastructure operators and the data processing activities conducted by network platform operators which affects or may affect national security shall be subject to cybersecurity review. Network platform operators mastering personal information of more than one million users must apply to the Cybersecurity Review Office for cybersecurity review if they intend to be listed abroad. On July 30, 2021, the State Council promulgated the *Regulations on Security Protection of Critical Information Infrastructure*, or the CII Regulations, which became effective on September 1, 2021. Pursuant to the CII Regulations, critical information infrastructure refers to any important network facilities or information systems of an important industry or field such as public communication and information service, energy, transport, water conservation, finance, public services, e-government affairs, science and technology industry for national defense and other industries and sectors that may seriously endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage. In addition, relevant administration departments of each critical industry and sector are responsible for formulating eligibility criteria and determining the critical information infrastructure in the respective industry or sector. The operators will be informed about the final determination as to whether they are categorized as critical information infrastructure operators, or CIIOs. As of the date of this annual report on Form 20-F, no detailed rules or interpretations have been issued and we have not been informed as a CIIO by any governmental authorities. Furthermore, the exact scope of CIIOs, under the current regulatory regime remains unclear, and the PRC governmental authorities may have discretion in the interpretation and enforcement of these laws and regulations. Therefore, it is uncertain whether we would be deemed as a CIIO under PRC law. If we are identified as CIIO, we will be subject to stricter requirements on business operations and cybersecurity compliance, and we may need to follow cybersecurity review procedure and apply with Cybersecurity Review Office before making certain purchases of network products and services, and if a cybersecurity review is applicable, we may be required to suspend providing any existing or new services to our users, and we may experience other disruptions of our operations.

In addition, the PRC regulatory authorities have recently taken steps to strengthen the regulations on data protection and conducted several rounds of relevant inspections. We have not been informed by the CAC of any further requirements of rectification. As laws and regulations in China on the protection of privacy and data are constantly evolving, complying with new laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

Despite our efforts to comply with applicable laws, regulations and other obligations relating to privacy, data protection and information security, it is possible that our practices, offerings or platform could fail to meet certain requirements imposed on us by such laws, regulations or obligations. Any failure on our part to comply with applicable laws or regulations or any other obligations relating to privacy, data protection or information security, or any compromise of security that results in unauthorized access, collection, transfer, use or release of personally identifiable information or other data, or the perception or allegation that any of the foregoing types of failure or compromise has occurred, could damage our reputation, discourage new and existing users from using our platform or result in investigations, fines, suspension of our app, or other penalties by government authorities and private claims or litigation, any of which could materially adversely affect our business, financial condition and results of operations. In addition, the interpretation and application of the aforementioned laws and regulations are often uncertain and in flux. Our practice may become inconsistent with these laws and regulations.

Our platform and internal systems depend on the ability of software and hardware developed and maintained internally and/or by third parties to store, retrieve, process and manage immense amounts of data, including personal information or other privacy-related matters. The software and hardware on which we rely may now or in the future contain undetected programming errors, bugs, or vulnerabilities which may result in errors or compromise our ability to protect the data of our users and in turn adversely affect our business, financial condition and operation results. Any systems failure or compromise of security that results in the unauthorized access to or release of the data, photo or messaging history of our users could significantly limit the adoption of our services, as well as harm our reputation and brand, result in litigation or regulatory investigations against us, and we could be subject to material liability or penalties. Additionally, we connect our platform with software development kit provided by third parties who may also process users' data. The integrity of our user data also depends on their ability to secure and protect the data they process. The risk that these types of events could seriously harm our business is likely to increase as we expand the scope of services we offer and as we increase the size of our user base.

We may also become subject to laws and regulations affecting data protection, data privacy and/or information security in other jurisdictions by virtue of having users who reside in these jurisdictions, even if we do not have a physical presence there. Many jurisdictions have in the past adopted, and may in the future adopt, new laws and regulations, or amendments to existing laws and regulations, affecting data protection, data privacy and/or information security, such as the General Data Protection Regulation, or the GDPR, adopted by the European Union that became fully effective on May 25, 2018. The interpretation and application of these laws or regulations are often uncertain and in flux. We cannot guarantee you that our practice is consistent with these laws and regulations and our practice may become inconsistent with these laws and regulations; if so, we could be subject to fines and orders requiring that we change our practices, which could have an adverse effect on our business and results of operations. Complying with new data laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner materially adverse to our business.

If users allege that we have improperly used, released or disclosed their personal information, we could face legal claims and reputational damage. We may incur significant expenses to comply with privacy, consumer protection and security standards and protocols imposed by law, regulation, industry standards or contractual obligations. A major breach of our network security and systems could create serious negative consequences for our business and future prospects, including possible fines, penalties, reduced customer demand for our products, and harm to our reputation and brand. See “Item 4. Information on the Company—B. Business Overview—PRC Regulation” for further details.

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

We will need significant capital to, among other things, conduct research and development, expand our manufacturing capacity, roll out new products and solutions and provide commercial services. We may also need significant capital to maintain our existing property and equipment. We believe that our balances of cash and cash equivalents, short-term investments and restricted short-term deposits as of December 31, 2024 will be sufficient to meet our sustainable operations and material cash requirements, including capital expenditures, for at least the 12 months after the date of this annual report. Our expected sources of capital include both equity and debt financing. However, financing might not be available to us in a timely manner or on acceptable terms, or at all.

Our ability to obtain the necessary financing to carry out our business plan is subject to a number of factors, including general market conditions and investor acceptance of our business plans. These factors may make the timing, amount, terms and conditions of such financing unattractive or unavailable to us. If we are unable to raise sufficient funds, we will have to significantly reduce our spending, delay or cancel our planned activities, substantially change our current corporate structure, or even curtail or discontinue our operations.

In addition, our future capital needs and other business concerns could require us to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could dilute the equity interests of our shareholders. Additional indebtedness would increase our debt-service obligations and may be accompanied by covenants that would restrict our operations or our ability to pay dividends to our shareholders.

We are subject to risks associated with strategic alliances or acquisitions. If we cannot manage the growth of our business or execute our strategies effectively, our business and prospects may be materially and adversely affected.

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

Although we currently do not have any specific acquisition plans, if appropriate opportunities arise, we may acquire additional assets, products, technologies or businesses that are complementary to our existing business. In addition to any required shareholders' approval, we may also have to obtain approvals and licenses from relevant government authorities for the acquisitions and to comply with any applicable PRC laws and regulations, which could result in delays and increased costs, and may derail our business strategies if we fail to do so. Furthermore, past and future acquisitions and the subsequent integration of new assets and businesses into our own require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant.

Our business could be adversely affected by trade tariffs or other trade barriers.

In recent years, the U.S. government imposed additional tariffs on goods from China, including new tariffs implemented in 2025. In response, China has imposed retaliatory tariffs on goods imported from the United States. Additionally, the European Union has imposed tariffs on imports of eVTOL aircraft originating from China. We currently do not have a plan to export our products to the United States or the European Union, and the potential impact of these tariffs remains uncertain on our business. Nonetheless, rising trade tensions, elevated tariffs, and other trade restrictions could significantly affect global economic conditions and the stability of global financial markets. These factors could in turn have a material adverse effect on our business, financial condition and results of operations.

We, the VIE and the VIE's subsidiaries have limited insurance coverage, which could subject us to significant costs and business disruption.

We, the VIE and the VIE's subsidiaries have limited liability insurance coverage for our products and business operations. We may not be able to secure additional product liability insurance coverage on acceptable terms or at reasonable costs when needed. A successful liability claim against us, the VIE or the VIE's subsidiaries due to injuries or damages suffered by our users could materially and adversely affect our financial condition, results of operations and reputation. Even if unsuccessful, such a claim could cause us adverse publicity, require substantial costs to defend, and divert the time and attention of our management. In addition, we do not have any business disruption insurance. Any business disruption could result in substantial cost to us and diversion of our resources. Furthermore, China, the United States or any other jurisdiction relevant to our business may impose requirements for maintaining certain minimum liability or other insurance relating to the operation of our products. Such insurance policies could be costly, which would reduce the demand for our products. Alternatively, certain insurance products that would be desirable to operators may not be commercially available, which would increase the risks of operating our products and also reduce the demand for them.

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

We are subject to anti-corruption, anti-bribery, anti-money laundering, financial and economic sanctions and similar laws and regulations in various jurisdictions in which we conduct our business or sell our products, including the PRC anti-corruption laws and regulations, the U.S. Foreign Corrupt Practices Act, or the FCPA, the U.K. Bribery Act 2010, and other anti-corruption laws and regulations. The FCPA and the U.K. Bribery Act 2010 prohibit us and our officers, directors, employees and business partners acting on our behalf, including agents, from corruptly offering, promising, authorizing or providing anything of value to a "foreign official" for the purposes of influencing official decisions or obtaining or retaining business or otherwise obtaining favorable treatment. The FCPA also requires companies to make and keep books, records and accounts that accurately reflect transactions and dispositions of assets and to maintain a system of adequate internal accounting controls. The U.K. Bribery Act 2010 also prohibits non-governmental "commercial" bribery and soliciting or accepting bribes. The PRC anti-corruption laws and regulations prohibit bribery to government agencies, state or government owned or controlled enterprises or entities, to government officials or officials that work for state or government owned enterprises or entities, as well as bribery to non-government entities or individuals. There is uncertainty in connection with the implementation of PRC anti-corruption laws. A violation of these laws or regulations could adversely affect our business, results of operations, financial condition and reputation.

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

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

We are involved in litigation from time to time and, as a result, we could incur substantial judgments, fines, legal fees or other costs.

We may be the subject of complaints or litigation from customers, suppliers, employees or other third parties for various actions. For example, we received a judgment against us in a dispute with a former employee and entered into a settlement with the former employee in April 2023. The damages sought against us in some of these litigation proceedings could be substantial. We cannot assure you that we will always have meritorious defenses to the plaintiffs' claims. While the ultimate effect of these legal actions cannot be predicted with certainty, our reputation and the result of operations could be negatively impacted. The proceedings we may be involved in from time to time, could incur substantial judgments, fines, legal fees or other costs and have a material adverse effect on our business, financial condition, results of operations and cash flows. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Our and the VIE's leased property interest may be defective and our right to lease the properties may be challenged, which could cause significant disruption to our business.

We and the VIE lease all the premises used in our operations from third parties. We and the VIE require the landlords' cooperation to effectively manage the condition of such premises, buildings and facilities. In the event that the condition of the office premises, buildings and facilities deteriorates, or if any or all of our and the VIE's landlords fail to properly maintain and renovate such premises, buildings or facilities in a timely manner or at all, the operation of our offices could be materially and adversely affected.

Moreover, certain lessors have not provided us and the VIE with valid ownership certificates or authorization of sublease for our and the VIE leased properties. Under the relevant PRC laws and regulations, if the lessors are unable to obtain certificate of title because such properties were built illegally or failed to pass the inspection or other reasons, such lease contracts may be recognized as void and as a result, we and the VIE may be required to vacate the relevant properties. In addition, if our and the VIE's lessors are not the owners of the properties and they have not obtained consents from the owners or their lessors or permits from the relevant government authorities, our and the VIE's leases could be invalidated. If this occurs, we and the VIE may have to renegotiate the leases with the owners or the parties who have the right to lease the properties, and the terms of the new leases may be less favorable to us and the VIE, or we and the VIE may be required to vacate the relevant properties if the terms of the new leases are not reached. We and the VIE may enter into new lease contracts with the lessors, and the terms of the new leases may be less favorable to us and the VIE, or we and the VIE may be required to vacate the relevant properties if the terms of the new leases are not reached.

Under PRC laws, all lease agreements are required to be registered with the local housing authorities. We and the VIE have not registered certain of our lease agreements with the relevant government authorities. Failure to complete these required registrations may expose our and the VIE's landlords, lessors, us and the VIE to potential monetary fines.

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

We adopted the 2015 Share Incentive Plan, or the 2015 Plan, the 2019 Share Incentive Plan, or the 2019 Plan, and the 2023 Share Incentive Plan, or the 2023 Plan (collectively, the "Plans"), to incentivize our employees, directors and consultants and align their interests with ours. We recognize expenses in our consolidated statement of loss in accordance with U.S. GAAP. Under the Plans, we are authorized to grant restricted share units and other types of awards. As of the date of this annual report, the maximum number of ordinary shares that may be issued pursuant to all awards granted under the 2015 Plan, the 2019 Plan, and the 2023 Plan is 8,867,053, 13,941,558, and 11,905,990, respectively. As of March 31, 2025, 6,398,600 restricted share units and 3,002,667 share options had been granted and were outstanding under the Plans. As of December 31, 2024, our unrecognized share-based compensation expenses relating to unvested awards amounted to RMB453.5 million (US\$62.1 million).

We believe the granting of share-based awards is of significant importance to our ability to attract and retain key personnel and employees, and we will continue to grant share-based awards to employees in the future. However, the number of shares reserved for issuance under our share incentive plan may not be sufficient to recruit new employees and to compensate existing employees. Furthermore, prospective candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Thus, our ability to attract or retain highly skilled employees may be adversely affected by declines in the perceived value of our equity or equity awards. To attract and retain qualified employees, our expenses associated with share-based compensation may increase, which may have an adverse effect on our results of operations.

If we fail to implement and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud, and investor confidence in our company and the market price of the ADSs may be materially and adversely affected.

In connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2017 and 2018, and the audit of our consolidated financial statements as of and for the year ended December 31, 2020, we and our independent registered public accounting firm, identified the following material weaknesses in our internal control over financial reporting. As defined in the standards established by the U.S. Public Company Accounting Oversight Board, or PCAOB, a “material weakness” is a deficiency, or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses that have been identified relate to our (i) lack of financial reporting policies and procedures that are commensurate with U.S. GAAP and SEC reporting and compliance requirements, and (ii) lack of monitoring of the collection of accounts receivable on a timely basis. We have taken measures to remediate the material weaknesses. For details on these measures, see “Item 15. Controls and Procedures—Changes in Internal Control over Financial Reporting.” Our management has concluded that our internal control over financial reporting was effective as of December 31, 2024 after the remediation. Our independent registered public accounting firm has audited the effectiveness of our company’s internal control over financial reporting as of December 31, 2024. For details on this report, see “Item 15. Controls and Procedures—Attestation Report of the Registered Public Accounting Firm.”

We are subject to the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act, or Section 404, requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F for the fiscal year ended December 31, 2020. In addition, as we have ceased to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue an adverse opinion on the effectiveness of internal control over financial reporting because of the existence of a material weakness if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, as a public company, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify other weaknesses and deficiencies in our internal control over financial reporting. If we fail to maintain the effectiveness of our internal control over financial reporting, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Generally speaking, if we fail to achieve and maintain an effective internal control environment, it could result in material misstatements in our financial statements and could also impair our ability to comply with applicable financial reporting requirements and related regulatory filings on a timely basis. As a result, our businesses, financial condition, results of operations and prospects, as well as the trading price of the ADSs, may be materially and adversely affected. Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions. We may also be required to restate our financial statements from prior periods.

It may be difficult for overseas authorities to conduct investigations or collect evidence within China.

Shareholder claims or regulatory investigations that are common in the United States generally are difficult to pursue as a matter of law or practicality in China. For example, in China, there are significant legal and other obstacles to providing information needed for regulatory investigations or litigations initiated outside China. Although the authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, such cooperation with the securities regulatory authorities in the United States may not be efficient in the absence of mutual and practical cooperation mechanisms. Furthermore, according to Article 177 of the PRC Securities Law, which became effective in March 2020, no overseas authorities, including the SEC, the PCAOB, and the U.S. Department of Justice, can directly conduct investigation or evidence collection activities within the PRC and no entity or individual in China may provide documents and information relating to securities business activities to overseas authorities without PRC government approval. On August 26, 2022, the PCAOB signed a Statement of Protocol with the China Securities Regulatory Commission and the Ministry of Finance of the People's Republic of China, taking the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. The Statement of Protocol gives the PCAOB sole discretion to select the firms, audit engagements and potential violations it inspects and investigates and put in place procedures for PCAOB inspectors and investigators to view complete audit work papers with all information included and for the PCAOB to retain information as needed. In addition, the Statement of Protocol grants the PCAOB direct access to interview and take testimony from all personnel associated with the audits the PCAOB inspects or investigates. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination that the positions taken by authorities in mainland China and Hong Kong prevented it from inspecting and investigating completely registered public accounting firms headquartered in those jurisdictions. However, the PCAOB may still lose such access to inspect and investigate completely registered accounting firms in mainland China and Hong Kong in the future. As of now, the general inability for overseas authorities to directly conduct investigation or evidence collection activities within China may further increase difficulties faced by you in protecting your interests.

Risks Relating to Our Corporate Structure

If the PRC government finds that the contractual arrangements between the WFOE, the VIE and the VIE's shareholders do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

In January 2016, we obtained a controlling financial interest in the VIE because the WFOE entered into a series of contractual arrangements with the VIE and the VIE's shareholders, which enable us to (i) have the power to direct significant activities of the VIE, (ii) receive economic benefits from the VIE that potentially could be significant to the VIE, and (iii) have an exclusive option to purchase all or part of the equity interests and assets in the VIE, when and to the extent permitted by PRC laws. As a result of these contractual arrangements, we are considered the primary beneficiary of the VIE and the VIE's subsidiaries and thus consolidate their financial results under U.S. GAAP. See "Item 4. Information on the Company—C. Organizational Structure" for further details.

Our PRC legal counsel, AllBright Law Offices, based on its understanding of the relevant laws and regulations, is of the opinion that (i) the ownership structure of the WFOE, the VIE and the VIE's subsidiaries are in compliance with applicable PRC laws or regulations, and (ii) such contractual arrangements constitute valid, legal and binding obligations enforceable against each party of such agreements in accordance with the terms of each agreement from their respective effective dates to the date of this annual report, and will not result in any violation of PRC laws or regulations currently in effect. However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules. Accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel.

If we or the VIE are found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

- revoking the business licenses and/or operating licenses of such entities;

- shutting down our servers or blocking our website, or discontinuing or placing restrictions or onerous conditions on our operation through any transactions between the WFOE and the VIE;
- imposing fines, confiscating the income from the WFOE or the VIE, or imposing other requirements with which we or the VIE may not be able to comply;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with the VIE and deregistering the equity pledges of the VIE, which in turn would affect our ability to consolidate, derive economic interests from, or to direct the significant activities of the VIE;
- restricting or prohibiting our use of the proceeds of our securities offerings to finance our business and operations in China, and taking other regulatory or enforcement actions that could be harmful to our business;
- confiscating any of our income deemed to be obtained through illegal operations;
- discontinuing or placing restrictions or onerous conditions on our operations;
- imposing additional conditions or requirements with which we may not be able to comply; or
- taking other regulatory or enforcement actions against us that could be harmful to our business.

The imposition of any of these penalties would result in a material and adverse effect on our ability to conduct our business. In addition, it is unclear what impact the PRC government actions would have on us and on our ability to consolidate the financial results of the VIE in our consolidated financial statements, if the PRC government authorities were to find our legal structure and contractual arrangements to be in violation of PRC laws and regulations. If the imposition of any of these government actions causes us to lose our right to direct the activities of the VIE or our right to receive substantially all the economic benefits and residual returns from the VIE and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to direct the significant activities of over or consolidate the financial results of the VIE in our consolidated financial statements. Either of these results, or any other significant penalties that might be imposed on us in this event, would have a material adverse effect on our financial condition and results of operations.

Our business may be significantly affected by the Foreign Investment Law.

On March 15, 2019, the National People’s Congress promulgated the Foreign Investment Law, which took effect on January 1, 2020 and replaced the trio of existing laws regulating foreign investment in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. Uncertainties still exist in relation to the interpretation and implementation of the Foreign Investment Law. The Foreign Investment Law does not explicitly classify whether variable interest entities that are controlled via contractual arrangements would be deemed as foreign invested enterprises if they are ultimately “controlled” by foreign investors. However, it has a catch-all provision under definition of “foreign investment” to include investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to provide for contractual arrangements as a form of foreign investment.

The Foreign Investment Law grants foreign invested entities the same treatment as PRC domestic entities, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list” to be published. The Foreign Investment Law provides that only foreign invested entities operating in foreign restricted or prohibited industries will require entry clearance and other approvals that are not required by PRC domestic entities or foreign invested entities operating in other industries. Pursuant to the latest version of the “negative list,” namely, the Special Management Measures (Negative List) for the Access of Foreign Investment (2024), which became effective on November 1, 2024, our principal business does not fall into “negative list” in respect of the “restricted” or “prohibited” categories for foreign investment. However, we cannot assure you that the “negative list” will not be updated in the future in any way adverse to our business. In the event that the VIE’s and/or its subsidiaries’ operations in the PRC are not treated as domestic investment and the contractual arrangement between the WFOE, the VIE and the VIE’s shareholders are classified as foreign investment in the “restricted” or “prohibited” industry in the “negative list” under the Foreign Investment Law, such contractual arrangements may be deemed as invalid and illegal, and we may be required to unwind such contractual arrangements and/or deconsolidate the financial results of the VIE and the VIE’s subsidiaries under U.S. GAAP.

Furthermore, if future laws, administrative regulations or provisions mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. In addition, the Foreign Investment Law provides that existing foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementation of the Foreign Investment Law, which means that we may be required to adjust the structure and corporate governance of certain of our PRC entities then. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

We rely on contractual arrangements with the VIE and the VIE's shareholders for certain business operations in the PRC, which may not be as effective as direct ownership in providing operational control.

The VIE and its subsidiaries accounted for 0.01%, 7.9% and 1.2% of our consolidated revenues for the years ended December 31, 2022, 2023 and 2024, respectively. While we do not expect the VIE and the VIE's subsidiaries to generate a significant portion of revenue on a consolidated basis, we have relied on and expect to continue to rely on contractual arrangements with the WFOE, the VIE and the VIE's shareholders for certain business operations in the PRC. These contractual arrangements may not be as effective as direct ownership in providing us with over the power to direct the significant activities of the VIE. For example, the VIE and the VIE's shareholders could breach their contractual arrangements with us by, among other things, failing to conduct the operations of the VIE in an acceptable manner or taking other actions that are detrimental to our interests.

If we had direct ownership in the VIE, we would be able to exercise our rights as shareholders to effect changes in the directors and senior management of the VIE, which in turn could implement changes, subject to any applicable fiduciary obligations, at the management and operational level. However, under the current contractual arrangements, we rely on the performance by the VIE and the VIE's shareholders of their respective obligations under the contracts to direct the significant activities of the VIE. The VIE's shareholders may act in a manner against the best interests of our company and may breach their obligations under these contracts. Such risks exist throughout the period in which we intend to operate certain portions of our business through the contractual arrangements with the VIE. If any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC laws and arbitrations, litigations and other legal proceedings and therefore will be subject to uncertainties in the PRC legal system. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—Any failure by the VIE or the VIE's shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business." Therefore, our contractual arrangements with the VIE may not be as effective in ensuring our power to direct the significant activities of the VIE as direct ownership in the VIE would be.

Any failure by the VIE or the VIE's shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.

The WFOE has entered into a series of contractual arrangements with the VIE and the VIE's shareholders. For a description of these contractual arrangements, see "Item 4. Information on the Company—C. Organizational Structure." If the VIE or the VIE's shareholders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC laws, including seeking specific performance or injunctive relief, and claiming damages, which may be difficult to enforce under PRC laws. For example, if the shareholders of the VIE refuse to transfer their equity interest in the VIE to us or our designee if we exercise the purchase option pursuant to these contractual arrangements, or if they otherwise act in bad faith toward us, then we may have to take legal actions to compel them to perform their contractual obligations.

All of the agreements under our contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC laws and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Uncertainties in the interpretation and enforcement of PRC laws and regulations could limit the legal protections available to you and us.” Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a VIE should be interpreted or enforced under PRC laws. There remain significant uncertainties regarding the ultimate outcome of such arbitration should legal action become necessary. In addition, under PRC laws, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delays. In the event we are unable to enforce these contractual arrangements, or if we suffer significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to direct the significant activities of the VIE, and our ability to conduct certain business through the VIE may be materially and adversely affected.

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

The shareholders of the VIE are Mr. Weixian Xia and Mr. Shuai Feng, each a senior employee of our company. Conflicts of interest may arise from them in their roles as employees of our company and as shareholders of the VIE. The VIE’s shareholders may breach, or cause the VIE to breach, or refuse to renew, the existing contractual arrangements we have with them and the VIE, which would have a material and adverse effect on our ability to direct the significant activities of the VIE and receive economic benefits from them. For example, the shareholders may be able to cause our agreements with the VIE to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor.

Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company, except that we could exercise our purchase option under the exclusive option agreements with these shareholders to request them to transfer all of their equity interests in the VIE to a PRC entity or individual designated by us, to the extent permitted by PRC laws. The shareholders of the VIE have executed powers of attorney to appoint the WFOE to vote on their behalf and exercise voting rights as shareholders of the VIE, and such rights were reassigned to us in March 2021. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of the VIE, we would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

The shareholders of the VIE may be involved in personal disputes with third parties or other incidents that may have an adverse effect on their respective equity interests in the VIE and the validity or enforceability of our contractual arrangements with them. For example, in the event that any shareholder of the VIE divorces his or her spouse, the spouse may claim that the equity interest of the VIE held by such shareholder is part of their community property and should be divided between such shareholder and his or her spouse. If such claim is supported by the court, the relevant equity interest may be obtained by the shareholder’s spouse or another third party who is not subject to obligations under our contractual arrangements, which could result in a loss of our power to direct the significant activities of the VIE. In addition, a judicial freeze was placed on the equity interests of the VIE in connection with an arbitration filed by a third party against Mr. Huazhi Hu, our founder, chairman of the board of directors and chief executive officer, who was also a former shareholder of the VIE. The arbitration arose from a financial dispute between the third party and Mr. Huazhi Hu, and was unrelated to our company. The third party did not have any claim against the VIE. The VIE was involved in the arbitration only because the third party regarded equity interests of the VIE as potential assets of shareholders of the VIE. The parties to the arbitration have reached a settlement. In March 2021, the third party filed a petition with the court and the judicial freeze on the VIE’s equity interests had been released. In addition to the aforementioned arbitration, in October 2020, the VIE paid a guarantee deposit to a court in Guangzhou, China to lift the judicial freeze. For details, see “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions.” If any of the equity interests of the VIE is similarly claimed by a third party with whom the current contractual arrangements are not binding, we could lose our power to direct the significant activities of the VIE or have to maintain such power by incurring unpredicted costs, which could cause significant disruption to our business and operations and harm our financial condition and results of operations.

Contractual arrangements in relation to the VIE may be subject to scrutiny by the PRC tax authorities and they may determine that we or the VIE and the VIE's subsidiaries, owe additional taxes, which could negatively affect our financial condition and the value of your investment.

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. The Enterprise Income Tax Law requires every enterprise in China to submit its annual enterprise income tax return together with a report on transactions with its related parties to the relevant tax authorities. The tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's length principles. We may face material and adverse tax consequences if the PRC tax authorities determine the contractual arrangements among the WFOE, the VIE and the VIE's shareholders were not entered into on an arm's length basis in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and adjust the income of the VIE in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by the VIE for PRC tax purposes, which could increase our tax expenses. In addition, the PRC tax authorities may impose late payment fees and other penalties on the VIE for the adjusted but unpaid taxes according to the applicable regulations. Our financial position could be materially and adversely affected if the VIE's tax liabilities increase or if it is required to pay late payment fees and other penalties.

We may lose the ability to use and enjoy assets held by the VIE that are material to certain business operations in the PRC if the VIE goes bankrupt or becomes subject to a dissolution or liquidation proceeding.

As part of our contractual arrangements with the VIE, the VIE and the VIE's subsidiaries hold certain assets that are material to certain business operations in the PRC, including permits, domain names and IP rights, operating licenses, intangible assets and fixed assets. If the VIE goes bankrupt and all or part of its assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. Under the contractual arrangements, the VIE may not, in any manner, sell, transfer, mortgage or dispose of its assets or legal or beneficial interests in the business without our prior consent. If our consolidated affiliated entity undergoes a voluntary or involuntary liquidation proceeding, the independent third-party creditors may claim rights to some or all of these assets, thereby hindering our ability to operate our business, which could materially and adversely affect our business, financial condition and results of operations.

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

Our authorized share capital is divided into Class A ordinary shares and Class B ordinary shares. In respect of matters requiring the votes of shareholders, holders of Class B ordinary shares are entitled to ten votes per share, while holders of Class A ordinary shares are entitled to one vote per share based on our dual-class share structure. Each Class B ordinary share is convertible into one Class A ordinary share at any time by its holder, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by their holder or a change of ultimate beneficial ownership of any Class B ordinary share to any person other than our founder, Mr. Huazhi Hu, or an affiliate controlled by our founder, such Class B ordinary shares shall be automatically and immediately converted into the same number of Class A ordinary shares.

As of March 31, 2025, Mr. Huazhi Hu, our founder, chairman of the board of directors and chief executive officer, beneficially owned all of our issued and outstanding Class B ordinary shares. These Class B ordinary shares constituted approximately 27.1% of our total issued and outstanding share capital and 78.8% of the aggregate voting power of our total issued and outstanding share capital as of March 31, 2025. See "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

Although we have no current plan to issue additional Class B ordinary shares, our board of directors has the authority without further action by our shareholders to issue additional Class B ordinary shares, which will further dilute the voting power of our Class A ordinary shareholders. As a result of the dual-class share structure and the concentration of ownership, our founder has considerable influence over matters such as mergers, consolidations and the sale of all or substantially all of our assets, election of directors, amendments to organizational documents and other significant corporate actions. Our founder may take actions that are not in the best interest of our other shareholders. This concentration of ownership may discourage, delay or prevent a change in control of our company, which could have the effect of depriving our other shareholders of the opportunity to receive a premium for their shares as part of a sale of our company and may reduce the price of our ADSs. This concentrated control will limit your ability to influence corporate matters and could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

In addition, our founder will continue to be able to control all matters submitted to our shareholders for approval even if his shareholdings represent substantially less than a majority of our outstanding common shares. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common shares could be adversely affected.

In July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual- or multi-class capital structures to be included in certain of their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400 and S&P SmallCap 600, which together comprise the S&P Composite 1500. Under the announced policies, our dual-class share structure would make us ineligible for inclusion in any of these indices, and as a result, mutual funds, exchange-traded funds and other investment vehicles that attempt to passively track these indices will not be investing in our shares, which may depress these valuations or depress our trading volume compared to those of other similar companies that are included in these indices.

Risks Relating to Doing Business in China

The PRC government's significant oversight over our and the VIE's business operation could result in a material adverse change in our operations and the value of the ADSs.

We conduct business operations in China primarily through our PRC subsidiaries. Our and the VIE's operations in China are governed by PRC laws and regulations. The PRC government's significant oversight over our and the VIE's business operation could result in a material adverse change in our and the VIE's operations and the value of the ADSs. The Chinese government may intervene or influence our operations at any time, or may exert more control over offerings conducted overseas and/or foreign investment in China-based issuers, which could result in a material change in our operations and/or the value of the ADSs. Any actions by the Chinese government to exert more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or become worthless.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our and the VIE's business, or the enforcement and performance of our contractual arrangements with the VIE. These laws and regulations may be subject to change, the enforcement of laws and regulations in China could be uncertain and the rules and policies in China may change quickly with little advance notice, which could result in a material adverse change in our operations and the value of the ADSs. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. Due to the uncertainty and complexity of the regulatory environment, we cannot assure you that we and the VIE would always be in full compliance with applicable laws and regulations, the violation of which may have adverse effect on our and the VIE's business and our reputation.

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

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions may be cited for reference but have limited precedential value in China. Our PRC legal system is evolving rapidly, but its current slate of laws may not be sufficient to cover all aspects of the economic activities in China, including such activities that relate to or have an impact on our business. Implementation and interpretations of laws, regulations and rules are not always undertaken in a uniform matter and enforcement of these laws, regulations and rules involves uncertainties.

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

We may be adversely affected by the complexities, uncertainties and changes in PRC regulations on technology companies.

The PRC government imposes licensing and permit requirements for companies in the technology industry. These laws, regulations and even such announcements are relatively new and evolving, and their interpretation and enforcement involve significant uncertainties. As a result, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be in violation of applicable laws and regulations.

In addition, our mobile application is regulated by the Administrative Provisions on Mobile Internet Applications Information Services, or the App Provisions, promulgated by the Cyberspace Administration of China, or the CAC, effective on August 1, 2016. According to the App Provisions, the providers of mobile applications shall not create, copy, publish or distribute information and content that is prohibited by laws and regulations. However, we cannot assure that all the information or content displayed on, retrieved from or linked to our mobile applications complies with the requirements of the App Provisions at all times. If our mobile applications were found to be violating the App Provisions, we may be subject to administrative penalties, including warnings, service suspensions or removal of our mobile applications from relevant mobile application stores, which may materially and adversely affect our business and operating results.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the technology industry, particularly the policies relating to new energy vehicles, have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business. We cannot assure you that we have obtained all the permits or licenses required for conducting our business in China or will be able to maintain or renew our existing licenses or obtain new ones.

Uncertainties exist with respect to the interpretation and implementation of the PRC Foreign Investment Law and its Implementation Regulations and how they may impact the viability of our current corporate structure, corporate governance and business operations.

The National People's Congress approved the *PRC Foreign Investment Law*, or the Foreign Investment Law, on March 15, 2019 and the State Council approved the *Regulation on Implementing the Foreign Investment Law*, or the Implementation Regulations on December 12, 2019, effective from January 1, 2020, to replace prior laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since the Foreign Investment Law and the Implementation Regulations are relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

The approval of and the filing with the CSRC or other PRC governmental authorities may be required in connection with our future offshore offerings under PRC law and if required, we cannot predict whether or how soon we will be able to obtain such approval or complete such filing.

On February 17, 2023, the CSRC issued rules and regulations concerning the filing management of overseas listing, which came into effect on March 31, 2023, which include the Provisional Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Enterprises, or the New Filing Rules, and five supporting guidelines. The New Filing Rules dictate that enterprises that have been listed overseas prior to March 31, 2023 constitute "Existing Issuers." Existing Issuers are required to complete filing procedure with the CSRC if and when they pursue any refinancing activities, securities offerings and listings outside of Mainland China, including but not limited to follow-on offerings, secondary listings, and listing by introduction in a different market, unless such securities are issued as equity incentive awards or in connection with conversion of public reserve funds into increased company capital, share dividends or share split. Although we are an Existing Issuer and accordingly are not required to complete filing with the CSRC immediately, we may be subject to the CSRC filing procedures in the future in connection with our refinancing or other activities and, if required, we cannot predict whether we will be able to complete such filing procedures in time or at all. If we fail to complete such filing procedures, we may not conduct refinancing or other activities which are subject to the New Filing Rules, or we would be subject to sanctions by the CSRC or other PRC regulatory authorities. These regulatory authorities may impose fines and penalties on our operations in China, limit our ability to pay dividends outside of China, limit our operating activities in China, delay or restrict the repatriation of the proceeds from our offshore offerings into China or take other actions that could materially and adversely affect our business, financial condition, results of operations, and prospects, as well as the trading price of the ADSs. In addition, given that the New Filing Rules were recently promulgated, there remains substantial uncertainties as to their interpretation, application, and enforcement and how they will affect our operations and our future financing. We cannot guarantee that new rules or regulations promulgated in the future will not impose any additional requirements on us or otherwise tighten the regulations on companies with VIE structures.

The ADSs will be delisted and prohibited from trading in the U.S. under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China.

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. On May 26, 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase the ADSs when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of the ADSs. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

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

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

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

In October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law, which came into effect on July 1, 2011. In April 1999, the State Council promulgated the Regulations on the Administration of Housing Funds, which was amended in March 2002. Companies registered and operating in China are required under the Social Insurance Law and the Regulations on the Administration of Housing Funds to, apply for social insurance registration and housing fund deposit registration within 30 days of their establishment and, to pay for their employees' different social insurance including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to the extent required by law. Recently, the PRC government enhanced its measures relating to social insurance collection, which lead to stricter enforcement. We could be subject to orders by the competent labor authorities for rectification and failure to comply with the orders which may further subject us to administrative fines.

As the interpretation and implementation of labor-related laws and regulations are still evolving, we cannot assure you that our employment practices do not and will not violate labor-related laws and regulations in China, which may subject us to labor disputes or government investigations. We cannot assure you that we have complied or will be able to comply with all labor-related laws and regulations including those relating to obligations to make social insurance payments and contribute to the housing provident funds. We have not fully paid the social insurance payment and housing provident funds for all of our employees as required by applicable PRC regulations. We may be required to make up the contributions for our employees, and may be further subjected to late fees payment and administrative fines, resulting in financial condition and results of operations to be adversely affected.

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

We are a holding company, and we rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders and service any debt we may incur. If our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us.

Under PRC laws and regulations, wholly foreign-owned enterprises in China, such as the WFOE, may pay dividends only out of their respective accumulated after-tax profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund certain statutory reserve funds, until the aggregate amount of such funds reaches 50% of its registered capital. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Our ability to pay dividends is primarily dependent on receiving distributions of funds from our PRC subsidiaries, the VIE and the VIE's subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by our PRC subsidiaries, the VIE and the VIE's subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of our PRC subsidiaries, the VIE and the VIE's subsidiaries.

In response to the persistent capital outflow and the Renminbi's depreciation against the U.S. dollar, the People's Bank of China and the State Administration of Foreign Exchange, or SAFE, have implemented a series of capital control measures, including stricter vetting procedures for China-based companies to remit foreign currency for overseas acquisitions, dividend payments and shareholder loan repayments. The PRC government may continue to strengthen its capital controls, and the WFOE's dividends and other distributions may be subjected to tighter scrutiny in the future. Any limitation on the ability of our PRC subsidiaries to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

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

We are an offshore holding company conducting our operations in China through our PRC subsidiaries, VIE and its subsidiaries. We may make loans to our PRC subsidiaries, VIE and its subsidiaries, or we may make additional capital contributions to our PRC subsidiaries, or we may establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, or we may acquire offshore entities with business operations in China in an offshore transaction.

Most of these activities are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of the State Administration of Foreign Exchange, or SAFE. If we decide to finance our wholly owned PRC subsidiaries by means of capital contributions, these capital contributions are subject to the requirement of making necessary filings in the Foreign Investment Comprehensive Management Information System and registration with other governmental authorities in China. Due to the restrictions imposed on loans in foreign currencies extended to any PRC domestic companies, we are not likely to make such loans to the VIE, which is a PRC domestic company. SAFE promulgated the *Circular on the Reforming of the Management Method of the Settlement of Foreign Currency Capital of Foreign-invested Enterprises*, or SAFE Circular 19, effective on June 1, 2015, in replacement of the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises, the Notice From the State Administration of Foreign Exchange on Relevant Issues Concerning Strengthening the Administration of Foreign Exchange Businesses, and the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses. According to SAFE Circular 19, the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company is regulated such that RMB capital may not be used for the issuance of RMB entrusted loans, the repayment of inter-enterprise loans or the repayment of banks loans that have been transferred to a third party. Although SAFE Circular 19 allows RMB capital converted from foreign currency-denominated registered capital of a foreign-invested enterprise to be used for equity investments within China, it also reiterates the principle that RMB capital converted from the foreign currency-denominated capital of a foreign-invested company may not be directly or indirectly used for purposes beyond its business scope. Thus, it is unclear whether SAFE will permit such capital to be used for equity investments in China in actual practice. SAFE promulgated the *Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Foreign Exchange Settlement Management Policy of Capital Account*, or SAFE Circular 16, effective on June 9, 2016, which reiterates some of the rules set forth in SAFE Circular 19, but changes the prohibition against using RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company to issue RMB entrusted loans to a prohibition against using such capital to issue loans to non-associated enterprises. Violations of SAFE Circular 19 and SAFE Circular 16 could result in administrative penalties. SAFE Circular 19 and SAFE Circular 16 may significantly limit our ability to transfer any foreign currency we hold, including the net proceeds from our securities offerings, to our PRC subsidiaries, which may adversely affect our liquidity and our ability to fund and expand our business in China.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans by us to our PRC subsidiaries or with respect to future capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds we received from our securities offerings and to capitalize or otherwise fund our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

PRC regulations relating to the establishment of offshore special purpose vehicles by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liabilities or penalties, limit our ability to inject capital into our PRC subsidiaries, limit the ability of our PRC subsidiaries to increase its registered capital or distribute profits to us, or may otherwise adversely affect us.

The SAFE promulgated the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or SAFE Circular 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing with such PRC residents or entities' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. On February 13, 2015, SAFE issued SAFE Circular No. 13, which took effect on June 1, 2015, pursuant to which, the power to accept SAFE registration was delegated from local SAFE to local qualified banks where the assets or interest in the domestic entity was located. SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular 75.

If our shareholders who are PRC residents or entities do not complete their registration pursuant to SAFE Circular 37 as required, our PRC subsidiaries may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to us, and we may be restricted in our ability to contribute additional capital to our PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

We have used our best efforts to notify PRC residents or entities who directly or indirectly hold shares in our Cayman Islands holding company and who are known to us as being PRC residents to complete the foreign exchange registrations. However, we may not be informed of the identities of all the PRC residents or entities holding direct or indirect interest in our company, nor can we compel our beneficial owners to comply with SAFE registration requirements. We cannot assure you that all other shareholders or beneficial owners of ours who are PRC residents or entities have complied with, and will in the future make, obtain or update any applicable registrations or approvals required by, SAFE regulations. Failure by such shareholders or beneficial owners to comply with SAFE regulations, or failure by us to amend the foreign exchange registrations of our PRC subsidiaries, could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit the ability of our PRC subsidiaries to make distributions or pay dividends to us or affect our ownership structure, which could adversely affect our business and prospects.

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

The *Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors*, or the M&A Rules, adopted by six PRC regulatory agencies in August 2006 and amended in September 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances that shall obtained an approval from the MOFCOM in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOFCOM shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by the MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Future movements in exchange rates between U.S. dollars and Renminbi may adversely affect the value of our ordinary shares or the ADSs.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in China and by China’s foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right, or the SDR, and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen and the British pound. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces, or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

Significant revaluation of the Renminbi may have a material and adverse effect on your investment. For example, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amount available to us.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any material hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited, and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of SAFE if certain procedural requirements are complied with. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries and consolidated affiliated entities to pay off their respective debt in a currency other than Renminbi owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

The PRC government has imposed more restrictive foreign exchange policies and stepped-up scrutiny of major outbound capital movements including overseas direct investments. More restrictions and substantial vetting processes are put in place by SAFE to regulate cross-border transactions falling under the capital account. For example, if a person (i) uses Renminbi to pay amounts due that should be settled in a foreign currency or (ii) makes payments in Renminbi on behalf of a third party in exchange for repayments in a foreign currency, such person may be subject to a fine of not more than 30% of the illegal payment. In severe cases, the fine could be increased to 100% of the illegal payment. If any of our shareholders or affiliates to whom SAFE regulations are applicable violates any of the foreign exchange policies, it may be subject to penalties from the relevant PRC authorities. Historically, certain minority shareholders invested in our company through payments in Renminbi to the VIE in lieu of payments in U.S. dollars outside of the PRC. In an uncertain event that we are deemed to have participated in our shareholders' actions that are not in compliance with the relevant foreign exchange policies by the PRC regulatory authorities, we could be subject to restrictions on our ability to convert foreign currencies into Renminbi or vice versa, as well as monetary penalties. If the PRC foreign exchange control system prevents us from converting foreign currencies into Renminbi or vice versa, our ability to obtain sufficient foreign currencies to satisfy our foreign currency demands may be materially and adversely affected. For example, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of the ADSs, and we may also encounter difficulties in remitting proceeds from our overseas financings and our revenue from the transactions with our overseas customers.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

Pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies. In the meantime, our directors, executive officers and other employees who are PRC citizens or who are non-PRC residents residing in the PRC for a continuous period of not less than one year, and who have been granted incentive share awards by us, may follow the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, promulgated by the SAFE in 2012. Pursuant to the 2012 SAFE notices, PRC citizens and non-PRC citizens who reside in China for a continuous period of not less than one year who participate in any stock incentive plan of an overseas publicly listed company, are required to register with SAFE through a domestic qualified agent, which could be the PRC subsidiary of such overseas listed company, and complete certain other procedures. In addition, an overseas entrusted institution must be retained to handle matters in connection with the exercise or sale of stock options and the purchase or sale of shares and interests. We and our executive officers and other employees who are PRC citizens or who reside in the PRC for a continuous period of not less than one year and who have been granted restricted share units are subject to these regulations as our company has become an overseas listed company. Failure to complete the SAFE registrations may subject us to fines, and legal sanctions and may also limit our ability to contribute additional capital into our PRC subsidiaries and limit the ability of our PRC subsidiaries to distribute dividends to us. We also face regulatory uncertainties that could restrict our abilities to adopt additional incentive plans for our directors, executive officers and employees under PRC laws.

The State Administration of Taxation, or SAT, has issued certain circulars concerning employee share options and restricted shares. If our employees fail to pay or we fail to withhold their income taxes according to relevant laws and regulations, we may face sanctions imposed by the tax authorities or other PRC governmental authorities.

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

Each of the WFOE and the VIE is currently qualified as a high and new technology enterprise, or HNTE, and as such is eligible for a 15% preferential tax rate, which will expire in December 2026 and December 2025, respectively. The discontinuation of any of the preferential income tax treatment that we currently enjoy could have a material and adverse effect on our result of operations and financial condition. We cannot assure you that we will be able to maintain or lower our current effective tax rate in the future.

Our PRC subsidiaries have received various financial subsidies from PRC local government authorities. The financial subsidiaries result from discretionary incentives and policies adopted by PRC local government authorities. The discontinuation of such financial subsidies or imposition of any additional taxes could adversely affect our financial condition and results of operations.

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

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with its “de facto management body” within the PRC is considered a “resident enterprise” and will be subject to PRC enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, production, personnel, accounts and properties of an enterprise. In 2009, the State Administration of Taxation issued a circular, known as SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all offshore enterprises. According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

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

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

We are a holding company incorporated under the laws of the Cayman Islands and as such rely on dividends and other distributions on equity from our PRC subsidiaries to satisfy part of our liquidity requirements. Pursuant to the PRC Enterprise Income Tax Law, a withholding tax rate of 10% currently applies to dividends paid by a PRC “resident enterprise” to a foreign enterprise investor, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for preferential tax treatment. Pursuant to the *Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income*, such withholding tax rate may be lowered to 5% if a Hong Kong resident enterprise owns no less than 25% of a PRC enterprise. Furthermore, the *Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties*, which became effective in August 2015, require non-resident enterprises to determine whether they are qualified to enjoy the preferential tax treatment under the tax treaties and file relevant report and materials with the tax authorities. There are also other conditions for enjoying the reduced withholding tax rate according to other relevant tax rules and regulations. See “Item 10. Additional Information—E. Taxation—PRC Taxation.” As of December 31, 2024, our PRC subsidiaries and the VIE located in the PRC reported accumulated loss and therefore they had no retained earnings for offshore distribution. In the future, we intend to re-invest all earnings, if any, generated from our PRC subsidiaries for the operation and expansion of our business in China. Should our tax policy change to allow for offshore distribution of our earnings, we would be subject to a significant withholding tax. We cannot assure you that our determination regarding our qualification to enjoy the preferential tax treatment could be challenged by the relevant tax authority and we may be unable to complete the necessary filings with the relevant tax authority and enjoy the preferential withholding tax rate of 5% under the arrangement with respect to dividends to be paid by our PRC subsidiary to our Hong Kong subsidiary.

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

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

We face uncertainties on the reporting and consequences of future private equity financing transactions, share exchanges or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises. The PRC tax authorities may pursue such non-resident enterprises with respect to a filing or the transferees with respect to withholding obligation, and request our PRC subsidiaries to assist in the filing. As a result, we and non-resident enterprises in such transactions may risk being subject to filing obligations or being taxed under SAT Public Notice 7 and SAT Bulletin 37, and may be required to expend valuable resources to comply with them or to establish that we and our non-resident enterprises should not be taxed under these regulations, which may have a material adverse effect on our financial condition and results of operations.

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

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

Although we usually utilize chops to enter into contracts, the designated legal representatives of each of our PRC subsidiaries, VIE and its subsidiaries have the apparent authority to enter into contracts on behalf of such entities without chops and bind such entities. All designated legal representatives of our PRC subsidiaries, variable interest entity and its subsidiaries are members of our senior management team who have signed employment agreements with us or our PRC subsidiaries, VIE and its subsidiaries under which they agree to abide by various duties they owe to us. In order to maintain the physical security of our chops and chops of our PRC entities, we generally store these items in secured locations accessible only by the authorized personnel in the legal or finance department of each of our subsidiaries, VIE and its subsidiaries. Although we monitor such authorized personnel, there is no assurance such procedures will prevent all instances of abuse or negligence.

Accordingly, if any of our authorized personnel misuse or misappropriate our corporate chops or seals, we could encounter difficulties in maintaining control over the relevant entities and experience significant disruption to our operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our PRC subsidiaries, VIE or its subsidiaries, we or our PRC subsidiaries, VIE and its subsidiaries would need to pass a new shareholders or board resolution to designate a new legal representative and we would need to take legal action to seek the return of the chops, apply for new chops with the relevant authorities, or otherwise seek legal redress for the violation of the representative's fiduciary duties to us, which could involve significant time and resources and divert management attention away from our regular business. In addition, the affected entity may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a transferee relies on the apparent authority of the representative and acts in good faith.

The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the past has deprived our investors with the benefits of such inspections.

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. The auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the ADSs were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past has made it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination that the positions taken by authorities in mainland China and Hong Kong prevented it from inspecting and investigating completely registered public accounting firms headquartered in those jurisdictions. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we and investors in the ADSs would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Our PRC subsidiaries and the VIEs may be subject to monetary liability if their share capital is not fully paid up before statutory deadlines.

On December 29, 2023, an amendment to the PRC Company Law was promulgated by the Standing Committee of the National People's Congress, which will take effect on 1 July 2024, shortening a company's period for share capital contribution to 5 years. In addition, the State Administration for Market Regulation or SAMR has released the draft Provisions of the State Council on Implementation of the Registration Administration System for Registered Capital under the Company Law of the People's Republic of China for public comment, which provides for an additional transition period of three years for companies incorporated before July 1, 2024. Under such rules, the share capital of all of our subsidiaries incorporated in the PRC, as well as Guangzhou EHang Intelligent Technology Co., Ltd., or the VIE, and its subsidiaries, shall be paid up by June 30, 2032. However, as such amendment to the PRC Company Law and the corresponding implementation rule has not taken effect, the actual implementation of the aforesaid change is subject to uncertainty. In the event that the share capital is not fully paid up by the statutory deadlines, the registered shareholder(s) of the foregoing companies may be subject to the legal liability including: (a) liability for the interest loss incurred therefrom on the overdue capital contribution amount on the subsidiaries (and possible interest on such loss); and (b) the supplementary compensation liability to creditors of the subsidiaries within the outstanding principal of share capital and overdue contribution interest.

Risks Relating to the ADSs and Trading Market

The trading price of the ADSs is likely to be volatile, which could result in substantial losses to investors.

Since the ADSs became listed on the Nasdaq Global Market on December 12, 2019, the trading price of the ADSs has ranged from a low of US\$3.32 to a high of US\$129.80 per ADS. The trading price of the ADSs is likely to be volatile and could fluctuate widely due to multiple factors, some of which are beyond our control. This may happen because of broad market and industry factors, including the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. In addition to market and industry factors, the price and trading volume for the ADSs may be highly volatile for factors specific to our own operations, including the following:

- variations in our revenues, earnings and cash flows;
- regulatory developments affecting us, our customers, or our industry;
- announcements of studies and reports relating to the quality of our products and service offerings or those of our competitors;
- announcements of new investments, acquisitions, strategic partnerships or joint ventures by us or our competitors;
- announcements of new products or service offerings and expansions by us or our competitors;
- changes in financial estimates by securities analysts;
- detrimental adverse publicity about us, our products or services or our industry;
- additions or departures of key personnel;
- detrimental negative publicity about us, our management or our industry;

- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- actual or potential litigation or regulatory investigations.
- the ADS being delisted and prohibited from trading in the U.S. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—The ADSs will be delisted and prohibited from trading in the U.S. under the Holding Foreign Companies Accountable Act, or the HFCAA, if the PCAOB is unable to inspect or fully investigate auditors located in China.”

Any of these factors may result in large and sudden changes in the volume and price at which the ADSs will trade.

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

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

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

The sale or availability for sale of substantial amounts of the ADSs could adversely affect their market price.

Sales of substantial amounts of the ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of the ADSs and could materially impair our ability to raise capital through equity offerings in the future. We cannot predict what effect, if any, market sales of securities held by our significant shareholders or any other shareholder or the availability of these securities for future sale will have on the market price of the ADSs.

Because we do not expect to pay dividends in the foreseeable future, the holders of the ADSs must rely on price appreciation of the ADSs for a return on their investment.

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

Our board of directors has discretion as to whether to distribute dividends, subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is paid. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return to ADS holders on the investment in the ADSs will likely depend entirely upon any future price appreciation of the ADSs. There is no guarantee that the ADSs will appreciate in value or even maintain the price at which the ADS holders purchased the ADSs. The ADS holders may not realize a return on their investment in the ADSs and they may even lose their entire investment in the ADSs.

Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.

Our memorandum and articles of association contain provisions which could limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders and ADS holders of an opportunity to sell their shares or ADSs at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions. Our board of directors has the authority, without further action by our shareholders, to issue preferred shares in one or more series and to fix their designations, powers, preferences, privileges, and relative participating, optional or special rights and the qualifications, limitations or restrictions, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights associated with our ordinary shares, in the form of ADSs or otherwise. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of the ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

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

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Companies Act (As Revised) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by our minority shareholders and the fiduciary duties of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary duties of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States.

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

In addition, we conduct substantially all of our business operations in China, and substantially all of our directors and senior management are based in China, which is an emerging market. The SEC, U.S. Department of Justice and other authorities often have substantial difficulties in bringing and enforcing actions against non-U.S. companies and non-U.S. persons, including company directors and officers, in certain emerging markets, including China. Additionally, our public shareholders may have limited rights and few practical remedies in emerging markets where we operate, as shareholder claims that are common in the United States, including class action securities law and fraud claims, generally are difficult to pursue as a matter of law or practicality in many emerging markets, including China. For example, in China, there are significant legal and other obstacles to obtaining information needed for shareholder investigations or litigation outside China or otherwise with respect to foreign entities. Although the local authorities in China may establish a regulatory cooperation mechanism with the securities regulatory authorities of another country or region to implement cross-border supervision and administration, the regulatory cooperation with the securities regulatory authorities in the United States has not been efficient in the absence of a mutual and practical cooperation mechanism. According to Article 177 of the PRC Securities Law which became effective in March 2020, no foreign securities regulator is allowed to directly conduct investigation or evidence collection activities within the territory of the PRC. Accordingly, without the consent of the competent PRC securities regulators and relevant authorities, no organization or individual may provide the documents and materials relating to securities business activities to foreign securities regulators.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, members of our board of directors or our controlling shareholders than they would as public shareholders of a company incorporated in the United States. For a discussion of significant differences between the provisions of the Companies Act of the Cayman Islands and the laws applicable to companies incorporated in the United States and their shareholders, see “Item 10. Additional Information—B. Memorandum and Articles of Association—Differences in Corporate Law.”

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

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

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

Holders of ADSs do not have the same rights as our registered shareholders. As a holder of the ADSs, you will not have any direct right to attend general meetings of our shareholders or to cast any votes at such meetings. You will only be able to exercise the voting rights which are carried by the underlying Class A ordinary shares represented by your ADSs indirectly by giving voting instructions to the depositary in accordance with the provisions of the deposit agreement. Under the deposit agreement, you may vote only by giving voting instructions to the depositary. If we instruct the depositary to ask for your instructions, then upon receipt of your voting instructions, the depositary will try, as far as is practicable, to vote the underlying Class A ordinary shares which are represented by your ADSs in accordance with your instructions. If we do not instruct the depositary to ask for your instructions, the depositary may still vote in accordance with instructions you give, but it is not required to do so. Under the deposit agreement for the ADSs, if you do not vote, the depositary may give us a discretionary proxy to vote the Class A ordinary shares underlying your ADSs at shareholders’ meetings if:

- we have timely provided the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we wish a discretionary proxy to be given;
- we have informed the depositary that there is no substantial opposition as to a matter to be voted on at the meeting; and
- a matter to be voted on at the meeting would not have a material adverse impact on shareholders.

The effect of this discretionary proxy is that if you do not vote at shareholders’ meetings, you cannot prevent the underlying Class A ordinary shares represented by your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy. You will not be able to directly exercise your right to vote with respect to the underlying Class A ordinary shares represented by your ADSs unless you cancel and withdraw such shares and become the registered holder of such shares prior to the record date for the general meeting.

Under our memorandum and articles of association, the minimum notice period required to be given by our company to our registered shareholders to convene a general meeting is ten calendar days. When a general meeting is convened, you may not receive sufficient advance notice of the meeting to withdraw the underlying Class A ordinary shares represented by your ADSs and become the registered holder of such shares to allow you to attend the general meeting and to vote directly with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the underlying Class A ordinary shares represented by your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depositary will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We have agreed to give the depositary at least 45 days' prior notice of shareholder meetings. Nevertheless, we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the underlying Class A ordinary shares represented by your ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to direct how the underlying Class A ordinary shares represented by your ADSs are voted and you may have no legal remedy if the underlying Class A ordinary shares represented by your ADSs are not voted as you requested.

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

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

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

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

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

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

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

The deposit agreement governing the ADSs representing our Class A ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.

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

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

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depository of compliance with any substantive provision of the U.S. federal securities laws and the rules and regulations promulgated thereunder.

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

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

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

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

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

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

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

As a Cayman Islands exempted company listed on Nasdaq Global Market, we are subject to the Nasdaq Stock Market corporate governance listing standards. However, Nasdaq Stock Market rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq Stock Market corporate governance listing standards. We have elected to follow our home country practice in lieu of certain corporate governance requirements of the Nasdaq Stock Market. See “Item 16G. Corporate Governance.” As a result, our shareholders may be afforded less protection than they would otherwise enjoy under the Nasdaq Stock Market corporate governance listing standards applicable to U.S. domestic issuers.

We are a “controlled company” within the meaning of the Nasdaq Stock Market Rules and, as a result, may rely on exemptions from certain corporate governance requirements that provide protection to shareholders of other companies.

We are a “controlled company” as defined under the Nasdaq Stock Market Rules because our founder, chairman of the board of directors and chief executive officer, Mr. Huazhi Hu, owns more than 50% of our total voting power. For so long as we remain a controlled company under that definition, we may rely on certain exemptions from corporate governance rules, including the rule that a majority of our board of directors must be independent directors and that we have to establish a nominating committee and a compensation committee composed entirely of independent directors. As a result, you will not have the same protection afforded to shareholders of companies that are subject to these corporate governance requirements should we choose to rely on such exemptions. We currently do not plan to rely on these exemptions.

If we are a passive foreign investment company, or PFIC, for any taxable year, our U.S. shareholders may be subject to adverse U.S. federal income tax consequences.

A non-U.S. corporation, such as our company, will be a PFIC for U.S. federal income tax purposes for any taxable year if either (i) at least 75% of its gross income for such year is passive income or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets) during such year is attributable to assets that produce or are held for the production of passive income. A separate determination must be made after the close of each taxable year as to whether a non-U.S. corporation is a PFIC for that year. Although the law in this regard is unclear, we intend to treat the VIE and the VIE's subsidiaries as being owned by us for U.S. federal income tax purposes, not only because we have the power to direct the significant activities of such entities but also because we are entitled to substantially all of their economic benefits and, as a result, we consolidate their results of operations in our consolidated financial statements.

Based on our analysis of our activities as well as the composition of our income and valuation of our assets, including goodwill, we do not believe we were a PFIC for U.S. federal income tax purposes for the taxable year ended December 31, 2024. The determination of whether we are a PFIC is a fact-intensive determination made on an annual basis and the applicable law is subject to varying interpretation. Since the value of our assets for purposes of the asset test may be determined by reference to the market price of the ADSs, fluctuations in the market price of the ADSs may cause us to become a PFIC for the current or subsequent taxable years. In addition, the composition of our income and assets will also be affected by our business plans including how quickly we use our cash and other liquid assets. If we determine not to deploy significant amounts of cash for active purposes or if it were determined that we do not own the stock of the VIE for U.S. federal income tax purposes, our risk of being a PFIC may substantially increase. In light of the foregoing, there can be no assurance that we were not, or will not be, a PFIC for any taxable year. Our U.S. counsel expresses no opinion with respect to our PFIC status for any taxable year.

U.S. Holders should consult with their tax advisors regarding the implications of owning stock in a PFIC. If we are a PFIC for any taxable year during which a U.S. Holder (as defined in "Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation") holds the ADS or a Class A ordinary share, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder. See "Item 10. Additional Information—E. Taxation—U.S. Federal Income Taxation—Passive Foreign Investment Company Rules."

Item 4. Information on the Company

A. History and Development of the Company

In December 2014, EHang Holdings Limited, or EHang Holdings, was incorporated in the Cayman Islands as our offshore holding company to facilitate offshore financing and listing. In the same month, Ehfly Technology Limited, or Ehfly Technology, was incorporated in Hong Kong as a direct, wholly-owned subsidiary of EHang Holdings. In addition, the following entities were incorporated to engage in the business of product manufacturing and sales and the provision of commercial solutions and related services:

- In October 2015, Ehfly Technology established EHang Intelligent Equipment (Guangzhou) Co., Ltd., or the WFOE, as a wholly-owned subsidiary in China. The WFOE is engaged in the research, development, manufacture and sale of UAVs, and the research and development of software, communication technology and UAV technologies related to air mobility and intelligent aviation.
- In January 2016, we obtained a controlling financial interest in Guangzhou EHang Intelligent Technology Co., Ltd., or the VIE, because the WFOE entered into a series of contractual arrangements with the VIE and the VIE's shareholders. The VIE is primarily engaged in the research, development, manufacture and sale of pilotless eVTOL aircraft, and the research and development of UAV operating systems and infrastructure.
- In June 2020, the WFOE, jointly with two other shareholders, established Yunfu EHang Intelligent Technology Limited to manufacture mainly pilotless eVTOL aircraft.

- In March 2021, the VIE established Guangdong EHang General Aviation Co., Ltd., to provide operational flight services with pilotless eVTOL aircraft.

Under PRC laws and regulations, our PRC subsidiaries may pay cash dividends to us out of their respective accumulated profits. However, the ability to our PRC subsidiaries to make such distribution to us is subject to various PRC laws and regulations, including the requirement to fund certain statutory funds, as well as potential restriction on currency exchange and capital controls imposed by the PRC government. For more details, see “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business” and “Item 4. Information on the Company—B. Business Overview—PRC Regulation—Dividend Distribution.” As a result of our contractual arrangements with the VIE and the VIE’s shareholders, we are regarded as the primary beneficiary of the VIE, and we treat the VIE and the VIE’s subsidiaries as our consolidated affiliated entities under U.S. GAAP. We have consolidated the financial results of the VIE and the VIE’s subsidiaries in our consolidated financial statements in accordance with U.S. GAAP.

On December 12, 2019, the ADSs commenced trading on the Nasdaq Global Market under the symbol “EH.” We raised US\$33.9 million in net proceeds from the issuance of new shares in our initial public offering after deducting underwriting commissions and the offering expenses payable by us. In January 2020, the underwriters exercised their over-allotment option and we raised US\$1.0 million in net proceeds from the issuance of new shares after deducting underwriting discounts and offering expenses payable by us.

On April 19, 2024, we entered into an At Market Issuance Sales Agreement with China Renaissance Securities (Hong Kong) Limited as the sales agent, or the Sales Agreement, in connection with our “at-the-market offering” program, or the ATM Program. Pursuant to the Sales Agreement, we may from time to time offer, issue and sell up to US\$100 million of our Class A ordinary shares represented by ADSs. As of the date of this annual report, we have sold 9,231,510 Class A ordinary shares for aggregate gross proceeds of US\$76.2 million under the ATM Program.

Our principal executive offices are located at 11/F Building One, EHang Technology Park, No. 29 Bishan Blvd., Huangpu District, Guangzhou, Guangdong Province, 510700, People’s Republic of China. Our telephone number at this address is +86 20 2902 8899. Our registered office is situated at the office of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Cogency Global Inc., located at 122 East 42nd Street, 18th Floor, New York, NY 10168.

The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC on www.sec.gov. You can also find information on our website www.ehang.com. The information on our website should not be deemed a part of this annual report.

B. Business Overview

We are a leading urban air mobility (“UAM”) technology platform company founded in 2014, with a mission to make safe, autonomous and eco-friendly air mobility accessible to everyone. We believe we were the first in the world to launch and deliver proprietary human-carrying pilotless eVTOL aircraft, related command-and-control systems and commercial solutions, setting new milestones in pilotless eVTOL aircraft innovative technologies and the emerging UAM market. In 2019, we became the world’s first publicly traded technology company in the global UAM industry by listing on Nasdaq.

In today’s increasingly populated and interconnected world, traditional modes of urban transportation continue to contribute to congestion and pollution, and they are largely confined to land-based infrastructure. Mobility for the future requires a revolutionary solution. While the sky above has always been a possibility, we brought a safe, autonomous, eco-friendly, cost-effective, easy-to-use and efficient air mobility solution one step closer to reality when we unveiled our first human-carrying pilotless eVTOL aircraft in 2016. Our eVTOL aircraft require minimal space for vertical take-off and landing, enabling urban travel to expand to the three-dimensional space. Our eVTOL aircraft technologies have the potential to reduce road traffic and associated congestion by taking transportation to the skies while utilizing electric power to reduce pollution. We believe eVTOL aircraft technologies will transform the future of transportation, and benefit the society and communities by improving lives and creating new industries.

Unlike other manually controlled UAVs and piloted eVTOL aircraft, our intelligent eVTOL aircraft can fly and operate autonomously from take-off to landing in pre-determined flight routes without any pilot onboard. Our in-flight operating systems and on-the-ground infrastructures enable reliable, real-time and cluster management of a fleet of pilotless eVTOL aircraft and efficient operations at scale.

We strive to design safe, reliable and functional products. We adopt a full redundancy design approach for our eVTOL products to avoid single points of failure. During the airworthiness certification by the Civil Aviation Administration of China (the “CAAC”), the safety, airworthiness, performance, functionality, usability and reliability of our EH216-S have been thoroughly and rigorously validated through over 500 specific test items, more than 40,000 test flights for adjustments, and formal conformity validation tests encompassing 65 major categories and over 450 individual test items. These tests included but were not limited to main material performance, structural strength, flame resistance, crashworthiness, gas toxicity, environmental conditions of equipment and systems, software simulation, data links, ground control stations, overall system functionality, electromagnetic compatibility, flight performance and flight stability characteristics. In October 2023, we obtained the Type Certificate (the “TC”) for EH216-S from the CAAC, the world’s first of its kind for human-carrying pilotless eVTOL aircraft, demonstrating that the type design of our EH216-S complies with the CAAC’s safety standards and airworthiness requirements and is qualified for conducting human-carrying commercial operations. Since December 2023, our certified EH216-S with the Standard Airworthiness Certificate (the “AC”) issued by the CAAC began delivery to our customers. In April 2024, we further obtained the Production Certificate (the “PC”) issued by the CAAC allowing our mass production of the EH216-S. In March 2025, Guangdong EHang General Aviation Co., Ltd. and our joint venture company Hefei Heyi Aviation Co., Ltd. were granted the Air Operator Certificates (“OC”) for EH216-S commercial operations from the CAAC. As of March 31, 2025, the flight footprints of our human-carrying pilotless eVTOL aircraft have accumulated about more than 66,000 safe trial or demo flights in 19 countries across Asia, Europe and Americas, predominantly in China.

With our strategic positioning to be a UAM platform operator, we adopt an integrated business model by selling products and solutions and providing operational services. We design, develop, manufacture, sell and operate eVTOL aircraft and other UAVs and their supporting systems and infrastructure for a variety of business solutions including air mobility and others (e.g. smart city management and aerial media solutions).

Our major source of revenue comes from our core business, air mobility solutions, from our continued deliveries of the EH216 series products since 2018. We delivered 216 units of the EH216 series in 2024.

As of December 31, 2024, we had delivered 453 units of the EH216 series products, including 433 units of the EH216-S, nine units of the EH216-F and 11 units of the EH216-L, mainly operated on a limited trial basis in tourism locations in China, for testing, training, demonstration and trial operation purposes, and we had also delivered four command-and-control centers or systems for smart city management in China.

Our revenues increased by 165.0% from RMB44.3 million in 2022 to RMB117.4 million in 2023, and then increased significantly to RMB456.2 million (US\$62.5 million) in 2024. Our net loss decreased by 8.2% from RMB329.3 million in 2022 to RMB302.3 million in 2023, and further decreased by 23.9% to RMB230.0 million (US\$31.5 million) in 2024. In 2024, revenues generated by air mobility solutions and others were RMB443.3 million (US\$60.7 million) and RMB12.9 million (US\$1.8 million), respectively, representing 97.2% and 2.8% of our total revenues, respectively. As of December 31, 2024, our accumulated deficit amounted to RMB1,984.9 million (US\$271.9 million).

The Emerging UAM Market

Urban Transportation Faces Increasing Challenges with Ground Mobility

Continued population growth and increased urbanization are adding pressure to urban transportation on the ground. Some 56% of the global population – 4.4 billion inhabitants – live in cities, according to the World Bank’s data in 2022. The urban population is projected to more than double by 2050, when almost 7 of 10 people will live in cities.

Transportation is a nonnegligible part in this migration. The speed and scale of urbanization has led to unprecedented traffic congestion in megacities and could further exacerbate challenges faced by ground mobility, with growing demand for higher travel volume, frequency and efficiency across urban and suburban areas.

Expanding ground-based urban transportation infrastructure requires significant investment, including increasing costs of time and money in building traffic systems and parking lots. It is also becoming increasingly difficult given how the constraints in ground mobility capacity cause complications in scaling networks across locations. Ultimately, a new, innovative and environmentally friendly transportation solution is needed in urban areas and in high demand.

eVTOL Technologies Make UAM Possible

The advancements in eVTOL technologies are enabling a new era of transportation with UAM, poised to revolutionize the way we move people and goods across urban and suburban areas.

One of the key drivers of eVTOL technology is the rapid development of battery technology driven by continued investment in ground-based electric vehicles. Lithium-ion batteries are becoming more efficient, with higher capacity and energy density, shorter charge times, and longer cycle life. These advancements are enabling eVTOL aircraft to fly longer distances and carry more passengers and cargo, while reducing the weight and cost of the overall system. Moreover, distributed electric propulsion (“DEP”), which uses multiple small electric motors instead of a single central engine, makes quiet and cost-effective eVTOL aircraft accessible. Other critical enablers include the development of advanced materials and manufacturing techniques, which are helping to reduce the weight and improve the performance of eVTOL aircraft, and the telecommunications and sensor technologies that are essential for safe and efficient operation of these aircraft.

On the other hand, eVTOL technologies offer a range of advantages over traditional ground-based two-dimensional transportation options. It is a safe, efficient, simple and carbon-free mobility solution. With their ability to vertically take off and land, eVTOL aircraft require less infrastructure than traditional airports or helipads, and can utilize more of the three-dimensional urban airspace. Additionally, it also allows efficient direct point-to-point flights, reducing the time in travel and increasing productivity.

As a result, eVTOL technologies are making UAM possible, unlocking greater freedom of mobility. eVTOL aircraft could become an important part of a three-dimensional mobility solution that connects the ground, the sea and the sky for future’s transportation.

Pilotless eVTOL Aircraft Bring Revolutions to UAM

Pilotless eVTOL aircraft are transforming the UAM landscape, bringing a host of benefits that were previously unattainable. The integration of artificial intelligence and autonomous systems into eVTOL aircraft enables them to reduce traffic congestion and accidents caused by human driver errors. With an on-demand ridesharing network, pilotless air taxi can increase the utilization of vehicles, improving travel efficiency and convenience for commuters. The resulting reduction in traffic congestion and commute times can significantly enhance the quality of life for urban residents.

Additionally, pilotless aircraft can save costs on professional pilots, who are often scarce and expensive to train. With autonomous systems, it is also convenient to effectively manage large-scale aircraft fleets and flight routes. The ability to remotely monitor and control aircraft in emergencies makes them a reliable transportation option for emergency services and critical medical supplies.

Furthermore, with their vertical take-off and landing capabilities, eVTOL aircraft can utilize more urban airspace and reduce the strain on ground transportation infrastructure. The introduction of pilotless eVTOL aircraft has the potential to change the way people live and travel, bringing social and economic revolutions in many conventional fields, including tourism and local transportation.

Significant UAM Market Opportunities

The potential of global UAM market is immense and is expected to grow exponentially over the next few decades. Since 2023, China has positioned the low-altitude economy as one of the national strategic emerging industries, and promoted increasingly favorable policies and regulations for the development and UAM operations of pilotless, electric, intelligent UAVs and eVTOL aircraft. Based on its large populations and massive market demand, the China low-altitude economy market has great potential for our pilotless eVTOL aircraft with various use cases in aerial tourism, urban transportation, aerial logistics, emergency services, smart city management, etc. Based on public information, it is estimated that the market size of the low-altitude economy will reach RMB2 trillion and there will be 100,000 units of eVTOL aircraft in China market by 2030. Besides, China's efficient and cost-effective UAV and electric vehicle manufacturing and supply chain competence bolster up its UAM market growth potential.

The opportunities presented by the UAM market extend beyond just transportation. The emergence of eVTOL aircraft could be more efficient and sustainable than traditional modes of transportation such as helicopters, cars, and airlines. They have the potential to enable faster and more convenient travel, reduce traffic congestion and carbon emissions, and increase economic growth through job creation and new business opportunities.

Our Competitive Strengths

Pioneer and leader in the global UAM industry

As the world's leading UAM technology platform company, we are the pioneer and leader in the global UAM industry with prominent first-mover advantages.

We unveiled the world's first human-carrying pilotless eVTOL aircraft, the EH184, at CES in the U.S. in 2016, attracting worldwide interest and passion to this disruptive technological revolution and the emerging UAM industry.

We developed and established the first command-and-control system and center at our headquarters in Guangzhou, China, in 2017, enabling cluster management of our pilotless eVTOL aircraft and UAVs through an intelligent system platform.

In March 2018, we started our first delivery of a unit of the EH216-S, our dual-seat human-carrying pilotless eVTOL aircraft, to a customer for testing, training and demonstration purposes. This was believed to be the world's first commercial delivery of a human-carrying pilotless eVTOL aircraft in the UAM industry. Since then, as of December 31, 2024, we had delivered a total of 453 units of the EH216 series products to our customers worldwide, mainly operated on a limited trial basis in aerial tourism usage scenarios in China, for testing, training, demonstration and trial operation purposes. With the delivery record unparalleled by others, we are a pioneer in the market and a leading player in the global UAM industry.

In December 2019, EHang was successfully listed on Nasdaq following an initial public offering, becoming the world's first publicly traded company in the UAM industry.

As a first mover, we not only design, develop, manufacture and sell our pilotless eVTOL aircraft and UAV products, but also actively collaborate with our customers and partners to explore various practical use cases through operating our products globally. As of March 31, 2025, the flight footprints of our human-carrying pilotless eVTOL aircraft have accumulated about more than 66,000 safe, autonomous trial or demo flights in 19 countries across Asia, Europe and Americas, predominantly in China. The industry-leading flight record demonstrated our product safety, reliability, adaptability and performance in different environments.

We are also a first mover in certification breakthrough in global eVTOL aircraft industry. In 2023, our EH216-S obtained the TC and standard AC from the CAAC, demonstrating that the EH216-S complies with the CAAC's safety standards and airworthiness requirements and is qualified for conducting human-carrying commercial operations. In April 2024, we further obtained the PC from the CAAC, allowing our mass production of EH216-S. In March 2025, Guangdong EHang General Aviation Co., Ltd. and our joint venture company Hefei Heyi Aviation Co., Ltd. were granted the Air Operator Certificates ("OC") for EH216-S commercial operations from the CAAC. These certificates are not only the world's first for the new type of human-carrying pilotless eVTOL aircraft, but also serves as an epoch-making milestone for commercial UAM operations.

Proprietary and revolutionary pilotless eVTOL aircraft and UAV technologies

With our mission to make safe, autonomous and eco-friendly air mobility accessible to everyone, we have proprietarily developed the revolutionary pilotless eVTOL aircraft and UAV technologies and products through deeply integrating our strong expertise in the fields of both aviation and software system. This makes our products different from and competitive than helicopters and piloted eVTOL aircraft and UAVs.

Compared with fuel-powered piloted helicopters, our EH216-S eVTOL aircraft has much lower lifetime cost by greatly decreasing acquisition price, maintenance costs, and pilot expenses, while providing a safe, autonomous, eco-friendly and quieter new way of air mobility.

With safety as the orientation as well as our first priority above anything else, we innovate and stick to three fundamental technological principles, which are redundancy, autonomous flying, and cluster management that are reflected in all of our products.

To ensure the safety, we adopt a full redundancy design and technologies in our products from day one in order to avoid single points of failure. Through the configuration of distributed electric propulsion, our pilotless eVTOL aircraft provide a safe and reliable propulsion system with backups for key components and sub-systems. If any would malfunction, the fail-safe system in our intelligent flight control systems can automatically monitor the situation in real time and quickly respond to restore the lost functionality through backups to ensure safety. For example, our EH216 series have 16 coaxial propellers driven by 16 independent motors mounted on 8 arms. According to our tests, the aircraft could still land safely even if any three propellers were intendedly stopped in flight, although the probability of which happens is extremely rare in normal situations. Additionally, our redundancy design with multiple backups is also reflected in our electric systems, sensors, flight control systems, communication systems, etc. to strengthen safety and reliability of our products.

Autonomous flying is also embedded in our genes from day one. Unlike other manually controlled UAVs or piloted eVTOL aircraft, our intelligent pilotless eVTOL aircraft and UAVs can fly without any human pilot onboard and operate autonomously from take-off to landing along pre-determined flight routes under the safe protection by electric fence within the pre-approved airspace.

Cluster management is another key principle as well as our technological advantage to ensure flight safety and autonomy. Our proprietary airborne operating systems and on-the-ground command-and-control systems, or standalone smartphone-or-tablet-or-computer-based controller app, enable reliable and simultaneous management of aircraft fleets at scale. Through high-speed telecommunication networks, it allows real-time monitoring and warning of flight data and status of our products, route planning and fleet management, remote control in emergencies to take contingency measures, etc. to ensure flight safety and enhance intelligence and efficiency.

With the three technological principles, we strive to make safe, reliable and functional products through strict tests. During the airworthiness certification by the CAAC, the safety, airworthiness, performance, functionality, usability and reliability of our EH216-S have been thoroughly and rigorously validated through over 500 specific test items, more than 40,000 test flights for adjustments, and formal conformity validation tests encompassing 65 major categories and over 450 individual test items. These tests included but were not limited to main material performance, structural strength, flame resistance, crashworthiness, gas toxicity, environmental conditions of equipment and systems, software simulation, data links, ground control stations, overall system functionality, electromagnetic compatibility, flight performance and flight stability characteristics.

A rich set of product portfolio for diversified commercial solutions

Based on our first priority of safety as well as our three fundamental technological principles, we have developed a scalable, integrated UAM technology platform. It carries a rich set of innovative products with differentiated advantages for diversified and immense market demands.

Our proprietary products have multiple designs for different suitable uses, including the EH216-S multi-rotor eVTOL aircraft for low-altitude intra-city air mobility, VT series lift-and-cruise eVTOL aircraft for long-range inter-city air mobility, the medium-sized UAV Falcon B for industrial uses, and the small-sized GD series drones for aerial media performance. Additionally, we provide flexible and customized solutions for different customer demands by further developing the EH216-F for high-rise firefighting, and the EH216-L for large-payload aerial logistics.

The diversity of our product strategy will bring various commercial solutions suitable for our diversified customers and market demand, and will also generate extensive revenue streams from our multiple business lines of air mobility and other solutions.

Strong in-house and collaborative research & development and production capabilities

Our cutting-edge pilotless eVTOL aircraft technologies and products rely on our strong in-house R&D capabilities. Motivated by Mr. Huazhi Hu, our founder, chairman and chief executive officer, who has a life-time passion and strong technical expertise in both aviation and command-and-control systems, we value the engineer culture and talents, and keep focusing and investing in technology innovation and product R&D since day one.

As of December 31, 2024, our R&D team accounted for 48.5% of our total employees. As of March 31, 2025, we had 476 issued patents, 270 pending patent applications, and 25 registered software copyrights, to protect our key technologies and intellectual property and maintain our core competitiveness in the long term.

Moreover, we are in extensive cooperations with industry-leading superior companies to jointly develop next-generation technology solutions, components and products for further enhancing our eVTOL product capabilities and portfolio. For instance, we partnered with Chongqing Changan Automobile Co., Ltd. (000625.SZ) in December 2024 with the intention to co-develop flying car-related product for mass consumer market; we collaborated with Guangzhou Greater Bay Technology Co., Ltd. in April 2024 to develop fast charging eVTOL batteries; and we also worked with Shenzhen Inx Energy Technology Co., Ltd. since 2023 to co-develop high-energy solid-state lithium batteries for our eVTOL aircraft, achieving a significant technology breakthrough to greatly increase EH216-S flight duration from 25min to over 48min in flight tests in 2024.

We are the first eVTOL company in the world having established a production base with production capabilities of pilotless eVTOL aircraft. Our Yunfu Production Facility ran into operation in June 2021, with a current annual capacity of 300 units of the EH216 series products. It is close to plenty of top-tier suppliers located in the Pearl River Delta area in China and has a planned total gross floor area of approximately 24,000 square meters and 276 manufacturing team members as of December 31, 2024. We plan to increase our capacity by Phase II expansion at our Yunfu Production Facility as the order demands increase. Since 2017, we have been certified to AS9100, a globally recognized aerospace and aviation quality management system standard. Further, we obtained the PC from the CAAC in April 2024, allowing our mass production of the certified EH216-S pilotless eVTOL aircraft. This lays a solid cornerstone of our high-quality, efficient and sufficient product manufacturing and delivery capabilities.

Strong customer base and wide partnership network across the value chain to enable UAM ecosystem and commercial operations

With the first certified pilotless eVTOL aircraft available in the market ahead of our peers with years of the first mover advantage, we have accumulated a strong customer base and wide partnership network with key stakeholders worldwide including regulators, governments and public sectors, universities, aviation companies, tourism companies, infrastructure providers, telecommunication providers, industry associations, etc. We have also participated in a number of European Union's UAM demonstration projects. Our joint efforts and collaborations across the value chain will empower the UAM ecosystem for commercial operations and sustainable development. In addition, the growing market demand for our products and solutions lays a solid foundation for our future revenue growth.

Our Leading Products and Solutions

Adhering to the three fundamental technological principles to ensure safety, which are redundancy, autonomous flying, and cluster management, we have designed, developed and provided turnkey total solutions to our customers including our proprietary pilotless eVTOL aircraft and UAVs, related operating systems and infrastructures.

eVTOL Aircraft and UAVs

Based on different designs and uses, our product portfolio mainly consists of the EH216 series, the VT series, the Falcon B, and the GD series.

- ***EH216 Series***

The EH216 series consists of the EH216-S (standard model), the EH216-F (firefighting model), and the EH216-L (logistics model). By a multirotor configuration with less complexity and strong reliability, the EH216 series adopt a distributed electric propulsion with 16 propellers driven by 16 independent motors mounted on 8 arms, which not only ensures redundancy and flight safety, but also enables stable and accurate navigating, vertically takeoff and landing in urban airspace. With the eight arms folded, the size of the EH216 series is similar to a private car, taking minor space for storage and vertiports than helicopters and most of other eVTOL aircraft, so as to provide higher flexibility and operation efficiency especially in urban areas.

Our flagship product the EH216-S is an electric dual-seat human-carrying pilotless eVTOL aircraft launched in 2018, the next generation upgraded from the EH184 and the EH116, the original single-seat prototypes of our human-carrying pilotless eVTOL models. Designed for short-to-medium-range low-altitude intra-city air mobility, it has a suitable flight performance for urban environment, the maximum flight range of 30km, the maximum flight time of 25min, and the maximum speed of 130km/h. With maximum takeoff weight of 620kg, the EH216-S can carry two people and an 18-inch luggage per flight, with no pilot onboard, and fly autonomously from the origin to the destination along pre-determined flight routes. Through a large panoramic windshield for wide vision and an intuitive tablet interface in front of the seats, people can enjoy the bird's eye view, check the real-time flight status, and communicate with ground crew for support if needed. The modularized structure with an upper cabin for passengers and a lower compartment to house major components and sub-systems ensures structural safety to better protect people on board.

The EH216-F is a firefighting eVTOL aircraft launched in July 2020. It is developed from the EH216-S and customized for high-rise firefighting. It is equipped with customized firefighting devices, such as fire extinguishing projectiles and launchers, a firefighting foam tank and a high-pressure nozzle. It is capable of flying up to 600m height to distinguish high-rise fires accurately and efficiently, while traditional rescue ladders and fire nozzles cannot reach the height. In July 2021, the EH216-F has passed a comprehensive 10-month technical examination to prove its reliability and performance through 52 different types of tests by the China National Fire-Fighting Equipment Quality Supervision Testing Center, which is under the Ministry of Emergency Management of China.

The EH216-L is an aerial logistics eVTOL aircraft launched in September 2020. It is developed from the EH216-S and customized for cargo transportation with 250kg payload.

- ***VT Series***

The VT series refers to a series of electric lift-and-cruise models we have designed and developed, consisting of the VT-30, the VT-20, and the VT-10. They combine the advantages of both multirotors and fixed wings, enabling vertically takeoff and landing and longer flight range than multirotor aircraft, while with no requirement for large infrastructures such as runways.

The VT-30 is a dual-seat passenger-carrying pilotless eVTOL aircraft. Complementary with the short-to-medium-range EH216-S designed for intra-city air mobility, the VT-30 is designed for long-range inter-city air transportation, driven by eight propellers and fixed wings on both sides, as well as a tail wing and a propeller at the rear, to achieve a maximum balance of lift and push. It is designed for a maximum flight range of 300km and a maximum flight time of 100min.

The VT-20 and the VT-10 are electric medium-sized lift-and-cruise models with four propellers and fixed wings. They are designed for long-range surveillance, power line inspection, air delivery, and others.

The VT series are currently under internal testing, and have not begun their deliveries.

- ***Falcon B***

The Falcon B is an electric medium-sized industrial UAV. It is a multirotor with 8 propellers, able to carry 5kg payload to fly 19km in 17min at the maximum speed of 80km/h. As a highly adaptable and extensible flight platform, the Falcon B provides a compatible interface which can be connected and equipped with different custom modules for various industrial uses, such as delivery, fire inspection, traffic monitoring, emergency rescue, etc.

- ***GD Series***

The GD series refers to our electric small-sized quadrotor UAVs, consisting of the GD2.0X used for aerial photography, last-mile delivery, and others, and the GD3.0 specially for aerial media performances.

Operating Systems

We have proprietarily designed and developed an integrated and digitalized operating platform with airborne operating systems installed in our eVTOL aircraft and UAV products, the command-and-control system, the UAM flight operation and management platform, and related infrastructure to allow our products to operate in various scenarios safely and efficiently. The operating systems for different commercial solutions share the same underlying technological architecture.

Our airborne operating systems include an autopilot and flight control system, a communication system, a battery management system and a safety management system, among other things. They are installed on each of our products to enable autopilot, navigation, real-time monitoring, control and performance adjustment. Human control can be exercised from the ground using smartphones, tablets or computers as well as through our command-and-control system, meeting the varied demands of our customers or passengers and contingencies.

- ***Autopilot and Flight Control System***

The autopilot and flight control system enables the autonomous operation of our products without any human pilot onboard and helps to ensure that our products fly in pre-determined routes from the origin to the destination with precise vertical take-off and landing.

- ***Communication System***

We have developed proprietary network protocols based on advanced communication technologies to support high-speed wireless networks between our products and ground command-and-control system. Our communication system is secured with data-encryption technologies for data security. We also use redundant data transmission links, which enable us to switch to a backup communication system if the primary system is breached.

- ***Battery Management System***

Our intelligent battery management system, or BMS, is an industrial-grade solution that monitors all parameters of our products' batteries, including temperature, capacity and voltage. The core of our BMS is the self-adaptive smart battery management algorithm that optimizes the balance between performance and battery life and provides accurate predictions based on data and analysis of flight status. To ensure effective management of battery performance and battery life, an onboard battery management unit transmits real-time BMS data to the flight control system and command-and-control system.

- ***Safety Management System***

Our products use full-redundancy safety technologies in their flight control system, sensors, propulsion system and battery management system. Our proprietary redundancy control algorithms are based on a real-time voting mechanism. Our products are designed with distributed electric propulsion, with an aim of achieving the highest level of safety through redundancy and efficiency. In the event of malfunction of certain parts of our products, the operating systems utilize the backup components to ensure proper functioning and performance of our products.

- ***Command-and-Control System***

We have extensive expertise in command-and-control system. Our proprietary command-and-control system can accurately monitor in-flight status, dispatch aircraft, effect pre-warning and contingency measures, etc. The system ensures that our products fly in pre-determined routes and maintain smooth and efficient operation. It also has the capability to monitor and detect irregularity in the status and operation of our products and to activate contingency measures to restrict and limit actions or movements of our products in emergency situations.

Powered by advanced technologies, our command-and-control system allows for adaptability and scalability. Through continuous uplinks maintained between aircraft and the ground command-and-control system, we are able to simultaneously manage up to 3,500 units of UAVs with precision and accuracy to complete pre-defined actions and movements in the air for aerial media shows.

Besides the command-and-control system for large-scale operations and management, we have also developed an app to enable standalone operations through portable smartphones, tablets or computers to individually monitor and control our products.

As of December 31, 2024, we had delivered four command-and-control centers or systems to our customers for smart city management in Shaoguan, Lianyungang, Hezhou and Shenzhen, in China.

- ***UAM Operational Platform***

Digitization is essential for UAM flight operation and safety management. We have built a digital UAM operational platform architecture and established a visualized flight operation module for managing the EH216-S flight schedule, ground crew, availability of vertiports and landing pads, and other factors across the entire front-line UAM operational process. This platform, which has been put into trial running internally, is designed to connect and interact with the back-end command-and-control system, as well as the future front-end flight booking and payment service windows through either our own app or third-party apps, in order to provide the operation team with a clear and efficient management platform, and offer consumers a smooth flight booking and riding experience.

Infrastructures

- ***Vertiports***

Vertiports are also essential for eVTOL aircraft operations and mobility efficiency. We have developed a set of requirements and different concept of vertiport designs for our eVTOL aircraft, and we call it E-Ports.

Taking the EH216-S as an example, each E-Port is identified and registered in our UAM flight operation and management platform, therefore our eVTOL aircraft can serve for on-demand flights only within E-Port network to ensure safety and autonomy.

Our E-Ports can locate flexibly at the rooftop, on mountains, near to parking lots, subway or railway stations, airports or harbors, so as to seamlessly connect with other transportation nodes to expand the three-dimensional travel networks.

The scale of each E-Port is determined by the customer demands, density of flight routes and traffic volumes. It could be either a simple landing pad, or a hub station with several landing pads, charging piles, passenger service areas, hangars for storage and maintenance, and more facilities.

Leveraging the advantages of EH216-S's smaller size, lighter weight, lower noise, higher flexibility compared with helicopters or larger eVTOL aircraft, the E-Port network is easier to be deployed, established and expanded by operators in urban areas with lesser costs and time. Usually, our customers and partners take the role to build E-Ports, while we provide designs and requirements.

- ***Charging Piles***

We have developed efficient and intelligent charging piles for our eVTOL aircraft, and have delivered to our customers along with our products. They can monitor real-time charging status and battery health.

Our Business Solutions

Air Mobility

Air mobility is our main business solution. We aim to provide customers with safe, autonomous, eco-friendly and efficient eVTOL aircraft products, solutions and services for aerial tourism, air transportations of passengers, cargos, emergencies, etc.

Currently, we focus on providing low-altitude urban air mobility solutions to our customers through the sale of our certified EH216-S and related services including preparation for commercial operations, personnel training, maintenance and repair, etc. In addition, we intent to extent to long-range inter-city air transportation with our VT series eVTOL aircraft for the regional air mobility market in the future.

To take aviation safety as our top priority and the social responsibilities as the first mover entering the emerging commercial market, we will take a prudent approach and business strategy to gradually expand commercial operation scenarios of our certified EH216-S human-carrying pilotless eVTOL aircraft in a safe, progressive manner. Starting from aerial sightseeing and flight experience in the tourism area, we will expand stage by stage to regular flight transportation and on-demand air taxi travel in the long term.

China is our principal market. Driven by increasingly favorable policies and regulations for civil unmanned aviation and low-altitude economy in recent years, the massive local market demand for various commercial applications, and the TC, PC, AC and OC for our EH216-S from the CAAC, we have received an increasing number of orders and purchase intentions from our customers in China since 2024. The total volume of delivered orders and intent orders that we received in 2024 was more than 1,000 units of EH216 series products based on our customers' purchase orders and framework agreements on purchase intentions, predominantly in China market. Delivery of intent orders is subject to additional final binding purchase agreements and conditions specified in the relevant contracts and is expected to be in batches through several years according to customers' demands. Our total delivery volume in 2024 was 216 units of EH216 series eVTOL aircraft, including 208 units in China market, and eight units in overseas markets.

Apart from delivery, we also actively promote the implementation of the EH216-S commercial operations. We work with the CAAC on the OC standard and the pioneering certification projects. Meanwhile, we assist our customers in setting up for their commercial operations, including planning operation sites, vertiports and flight routes, training operation team and maintenance staff, OC application, and trial operations in many cities across China, such as Guangzhou, Hefei, Shenzhen, Wuxi, Taiyuan, Wencheng, Shaoguan, Shanghai, etc.

In March 2025, Guangdong EHang General Aviation Co., Ltd. and our joint venture company Hefei HeYi Aviation Co., Ltd. were simultaneously granted the first batch of OCs by the CAAC, approving them as commercial operators to provide human-carrying pilotless eVTOL flight services for mass consumers with the certified EH216-S at their operation sites in Guangzhou and Hefei. We believe the EH216-S commercial operations will be carried out by more operators and expand to more operation sites across China in the future.

In addition, we actively extend our partnership with industry stakeholders on infrastructure construction and talent training to pave the way for a long-term sustainable development of the UAM market. For instance, we partnered with China Communications Information & Technology Group and local governments in December 2024 for co-developing digital UAM infrastructure and low-altitude flight hubs across China. We partnered with the Civil Aviation Flight University of China in October 2024 to train skilled professionals for eVTOL operations and maintenance and address the estimated demand for millions of talents of the low-altitude economy sector in China.

Meanwhile, we explored and expanded broader international markets in Asia and South America, and received growing product demand from our customers in 2024. We delivered a total of eight units of EH216 series eVTOL aircraft in overseas markets in 2024, including Japan, the United Arab Emirates, Brazil, and the Dominican Republic.

Additionally, in collaboration with our global customers and partners, we have expanded our eVTOL flights in the United Arab Emirates, Costa Rica, Japan, Saudi Arabia, Brazil, Thailand, Spain and Mexico since 2024. As of March 31, 2025, the flight footprints of our human-carrying pilotless eVTOL aircraft have accumulated about more than 66,000 safe trial or demo flights in 19 countries globally. Meanwhile, we have been working with the aviation regulators in multiple countries for local certifications or approvals of our eVTOL trial flights, validation of TC, and commercial operations in the future.

Others

Smart City Management

We believe we are the first company having developed and delivered the smart city management solutions with integrated and intelligent command-and-control systems or centers that can centralize and coordinate a wide range of UAV applications simultaneously. We customize and adapt our UAVs to capture live videos, images and data generated by attached modules such as cameras, electro-optical, infrared or other sensors, and loudspeakers as our customers' requirements. The signals and instructions are wirelessly transmitted through high-speed telecommunication network between UAVs and the command-and-control systems we develop for our customers, enabling our customers to receive and send crucial information in real time remotely and safely.

The main customers of our smart city management solutions are public sectors. We provide an integrated and efficient digital platform with customized UAV models as turn-key solutions for monitoring and management across many ordinary municipal functions and public utilities, such as traffic management, powerline inspection, environmental monitoring, firefighting, emergency rescue, aerial mapping, etc. Compared with the traditional manpower-and-time-consuming working mode, the cost-effectiveness and efficiency are greatly improved.

As of December 31, 2024, except for the first UAV command-and-control center established in Guangzhou for our own use, we had delivered four command-and-control centers or systems along with suitable models as integrated packages for smart city management solutions to our customers in Shaoguan, Lianyungang, Hezhou and Shenzhen, China. These delivered command-and-control centers or systems are currently operated by our customers, while we provide related required trainings and technical supports. Besides, we sell UAVs to some smart city management customers on a standalone basis, which can be controlled by our app.

Aerial Media

We were the first company to launch the aerial media solutions in 2016 and are a leading player in China and Europe in providing aerial media performances, also known as drone light shows. Our services involve managing and choreographing a fleet of UAVs that are equipped with LED lights into a series of moving images. We utilize a range of proprietary navigation technologies, operating systems, and infrastructure to deliver smooth and mesmerizing UAV formations, synchronized movement and accurate display of two-dimensional and three-dimensional patterns, brand logos, or messages. Our remote command-and-control capacity and auto formation flight system enable us to support diverse flight missions and light effects with varying degrees of difficulties. We also use real-time kinematic satellite-based navigation technology (RTK-GPS) to achieve centimeter-level positioning precision for our UAVs.

We not only provide large-scale aerial media performance services for outdoor events such as celebrations, festivals, and brand campaigns, but also offer aerial media packages that includes our proprietary GD series UAVs and relevant software to our customers who are able to design and carry out performances themselves with our products.

As of December 31, 2024, we, together with our customers and partners, had completed over 200 aerial media performances by our UAVs in Asia, Africa and Europe. Moreover, we broke two Guinness World Records for our aerial media performances in China in 2018, by setting the record for “The Most UAVs Airborne Simultaneously” by deploying 1,374 units of the GD2.0X, and “The Most Consecutive Formations Formed by UAVs Same Set.”

Our Business Strategies

Extend our technological leadership

We plan to continue to invest in technological innovation to cement our leadership in pilotless eVTOL aircraft technologies and establish ourselves as the industry benchmark for UAM commercial solutions. We will continue to expand our talent pool and intellectual property, and drive innovation.

Expand our product portfolio and strengthen our platform

We plan to continue to optimize our existing models, expand our product portfolio, and obtain required certificates for commercial applications. We will continue to develop and certify more models for different uses. We will continue to develop our technology platform and ancillary products and services to strengthen our ability to provide end-to-end UAM commercial solutions that address the growing needs of our customers.

Take advantage of the first eVTOL aircraft certifications for entry into market

Our EH216-S has obtained the world’s first TC, standard AC and PC for pilotless eVTOL aircraft from the CAAC, demonstrating it is qualified for human-carrying commercial operations and mass production. Moreover, the EH216-S operators have obtained the OCs for their commercial flight operations in China. On this basis, we plan to further extend to more countries in Asia and other regions worldwide by potential bilateral agreements between aviation regulators and required local certifications.

Capitalize our first mover advantages to continue commercialization and promote adoption

We will capitalize our first mover advantages ahead of our peers and our uniqueness of pilotless eVTOL aircraft in the commercial market to accelerate the commercialization pace for both product sales and flight operational services. As we continue collaborating with governments, our customers and partners to promote the regulatory and social acceptance, infrastructure establishment, and industrial deployment, we will pilot air mobility services with our pilotless eVTOL aircraft in pre-determined routes as a precursor for more flexible, on-demand services networks starting from scenic areas gradually to urban areas.

Keep enhancing commercial operation capabilities

We will keep developing and improving our UAM digital operational platform for an effective and efficient management of aircraft, flight schedule and routes, ground crew, vertiports, air traffic, and approved airspace. In addition, we will continue to enhance commercial operation capabilities by expanding air mobility operation team, improving operational standards and rules, and exploring feasible and replicable commercial operational mode together with our business partners.

Explore new monetization opportunities and develop diversified revenue streams

We plan to explore new monetization opportunities and develop diversified revenue streams by leveraging our fundamental technology platform to pursuit operating synergies across our business lines and better economic efficiency. For example, we may charge recurring fees for our software system licenses, operational and maintenance services for our products. We may also enter into revenue sharing, financial leasing, strategic investment arrangements with customers to capture flexible and greater business opportunities.

Expand strategic partnerships across the value chain to develop a sustainable UAM ecosystem

We plan to continue to expand our partnership network across the value chain in the global UAM industry with business partners and regulatory agencies to foster and grow the commercial eVTOL aircraft market and develop a sustainable UAM ecosystem.

Research and Development Capabilities

Our in-house design, development and engineering capabilities underpin our leadership and support the advancement of our platform. Our design is characterized by unabated efforts to improve safety, reliability and functionality. We have a dedicated research, design and development team in Guangzhou. The team consists of members with strong backgrounds in the fields of electrical engineering, aerospace engineering, mechanical engineering, automation, material engineering and software development. The key R&D team members are mainly graduates of top universities. Our research and development team focuses on core research development, engineering technology, hardware development, and command-and-control systems. We have a dedicated software technology group to lead the research and development of software and algorithms.

Our success has been driven by a passionate, visionary, tech-savvy and entrepreneurial management team with a unique combination of aviation, internet and software expertise. Our founder, chairman and chief executive officer, Mr. Huazhi Hu is one of the pioneers and leaders in the global pilotless eVTOL aircraft industry, who was awarded the Technology Innovation Award by the Living Legends of Aviation Europe in 2019 and ranked the Top one inventor at air taxi firms, who personally took 10% share of all patents filed globally as of August 11, 2022 according to a Roland Berger analyst's research. As a Tsinghua University-trained software engineer, Mr. Hu has amassed substantial experience in the development of command-and-control systems. He was one of the key architects and lead developers behind certain large-scale command-and-control systems, such as that for the 2008 Summer Olympics Games in Beijing.

During the airworthiness certification by the CAAC, our R&D and certification team have well demonstrated their professionalism, comprehensive expertise and innovation spirit, and thoroughly and rigorously validated the safety, airworthiness, performance, functionality, usability and reliability of our EH216-S through over 500 specific test items, more than 40,000 test flights for adjustments, and formal conformity validation tests encompassing 65 major categories and over 450 individual test items. These tests included but were not limited to main material performance, structural strength, flame resistance, crashworthiness, gas toxicity, environmental conditions of equipment and systems, software simulation, data links, ground control stations, overall system functionality, electromagnetic compatibility, flight performance and flight stability characteristics. As of March 31, 2025, the flight footprints of our human-carrying pilotless eVTOL aircraft have accumulated more than 66,000 safe trial or demo flights in 19 countries across Asia, Europe and Americas. The industry-leading flight record demonstrated our technology and product safety, reliability, adaptability and performance in diversified environments.

Manufacturing, Quality Control and Supply Chain

As an original equipment manufacturer of eVTOL aircraft and UAVs, we adopt a safe, compliant, lean and efficient production strategy across our business, focusing on effective prototyping, manufacturing, supply chain management, final assembly, integration, quality control and final acceptance testing.

Manufacturing

We currently have a production facility in Yunfu city, Guangdong province, China, which commenced operation in June 2021. It has a planned total gross floor area of approximately 24,000 square meters, equipped with a series of function areas across the production processes for different types of our products from manufacturing of key components and carbon fiber composite airframes to aircraft assembling and flight testing. The Yunfu facility currently has an annual capacity of 300 units of the EH216 series products. We plan to increase our capacity by Phase II expansion at our Yunfu Production Facility as the order demands increase.

To ensure high levels of quality and reliability, our dedicated manufacturing team, in close collaboration with our design and engineering arm, manages and conducts the design, engineering and production of key proprietary components, such as flight control system units, communication system units, battery management system units and motor drivers, and performs in-house final assembly of our products.

Our production partners are subject to rigorous selection and review procedures. All of our production system operations incorporate internal and external quality programs and processes to ensure our required standards for acceptance rates, reduce lead times and lower cost.

Quality Control

Our quality control efforts focus on designing and producing products and implementing processes that will ensure high levels of safety and reliability. We have a dedicated quality control team that works with our engineering arm and our suppliers to ensure that the product designs meet safety requirements and functional specifications. Together with our supplier review committee, our quality control team also collaborates with our suppliers to ensure that their processes and systems are capable of delivering the parts and components we need at the required quality levels, on time and within budgets.

Our products are produced with strict product quality control. Our quality control team undertakes robust inspections of our production lines in accordance with internal guidelines and assessment criteria. We also conduct licensed flight tests for our products under a variety of conditions, which have proven to be an efficient and effective means for us to assess the quality and airworthiness of our products. Data and results generated from flight tests are carefully studied and analyzed to inform any process of alteration or improvement that may follow. In conjunction with our provision of a broad range of after-sales services and assistance to our customers, our product quality control management extends beyond the point of sale as we continue tracking the performance and quality of our products.

We are committed to a high level of quality assurance. Since 2017, we have been certified to AS9100, a globally recognized aerospace and aviation quality management system standard. Further, we obtained the PC from the CAAC in April 2024, allowing our continued mass production of the certified EH216-S. During the PC certification process, our mass production capabilities and quality management system, which encompasses raw materials, supplier management, production organization, production quality control, aircraft pre-delivery test, after-sales repair and maintenance, etc., have been thoroughly validated by the CAAC.

Supply Chain

We adopt a strict reviewing mechanism to ensure quality and stability of our supply chain. We also aim to fully engage with our suppliers to foster long-standing and strong partnership with qualified suppliers. Our Yunfu production facility is located in the Pearl River Delta area, a world-leading manufacturing hub, giving us easy access to a large number of high-quality suppliers in an efficient manner. Our products are generally manufactured on specific orders and we have been able to effectively manage our inventory level. Historically, we have not experienced significant delays in the supply or availability of our key raw materials or components provided by our suppliers, nor have we experienced a significant price increase for raw materials or components.

We require our suppliers to maintain high-quality deliverables and to comply with specified industry standards. Parts and components sourced from our suppliers must be certified by the China Compulsory Certification or the Underwriters Laboratory, and/or certified with the ISO 9001. Our suppliers of key parts and components are additionally required to be certified with AS9100 or alternative equivalent certificates. We regularly monitor the performance of our suppliers using parameters such as supplier defect rates, production and delivery performance, as well as inventory management.

Marketing, Sales and After-Sales Services

Marketing

As the first mover in the emerging UAM industry, we have spent years dedicated to educating the stakeholders of regulators, partners, customers and end users with our innovative and cutting-edge pilotless eVTOL aircraft technologies and knowledges, to increase social acceptance of this new way of air mobility, and to promote the visibility of our EHang brand and products globally. We believe these are necessary and significant efforts to accumulate our customer base and partner network, to cultivate the new market from the infancy stage evolving to the mature period, and to catalyze the establishment of UAM ecosystem for the commercial operations.

We kept communicating with our customers, investors and followers through multiple domestic and international online and offline channels and activities, including but not limited to our website, various social media and video platforms, e-commerce platforms, hotlines and emails, mainstream media coverages, brand and product launch events, high-profile exhibitions and industry conferences, worldwide trial and demonstration autonomous flights, etc. The consistent exposures and marketing efforts contributed to our brand awareness, reputation and sales leads.

We issued a white paper entitled *The Future of Transportation: White Paper on UAM System* in January 2020, which explored in depth UAM's potential to transform transportation globally with insights into vehicle design, an overview of potential applications and regulatory landscape, and our recommendations as to the optimization of UAM's path towards commercialization. We believe this white paper has facilitated the education of the emerging market at the early stage and consolidated our thought leadership as the first mover in the innovative industry.

Sales

We adopted the direct sales model to sell our products and solutions to our customers, which currently are mainly corporate clients. We have established an in-house direct sales team based in the PRC and Europe to serve our customers from around the world. We are also in discussion with existing and potential business partners in the PRC and abroad to complement our direct sales efforts with sales to distributors and franchise arrangements.

On top of our sales in the PRC, we have exported our products to Asia, Europe, North America and South America. We strive to ensure that our exported products comply with the regulatory and safety standards of the local markets.

Our customers place purchase orders taking into account the terms of the relevant framework agreement, if applicable, and the customer's procurement requirements. We start production after the purchase order from customers is made, and production generally takes three months to deliver. Customers are contractually required to make upfront payment to us.

Except for purchase orders, we have also entered into a number of long-term framework and conditional agreements time to time with our customers and business partners relating to preorder or distribution of our products and solutions. These non-binding agreements do not obligate the customers to purchase the products unless certain conditions are satisfied. Fulfillment is expected to take several years and is conditional upon, among other things, achievement of performance milestones and receipt of regulatory approvals. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Business and Industry—Our framework and conditional agreements may not result in material sales of our products."

After-Sales Services and Warranty

We provide after-sales services for customers of our products. We currently offer free installation and training programs thereafter to prepare our customers for its safe operation. The term of our warranty for the EH216 series products is six months to three years depending on the specific parts and components, and the term of our warranty for our small-and-medium-sized UAVs is from six to twelve months depending on the product line and the specific parts and components. Within the warranty period, customers are entitled to free repair and maintenance services, while costs for accessories and maintenance fees beyond the warranty will be charged separately. The warranty on certain components of our products, such as batteries, is covered by our suppliers' back-to-back warranty and we are entitled to have the suppliers replace or repair these defective components at their costs. We also provide our customers with lifetime consulting services on maintenance and operation through our website, over the telephone and via email.

For our commercial solutions, we provide a full spectrum of services. To facilitate the efficient operation of our command-and-control systems, we provide, among others, system operation and maintenance training, service support, engineering support, inspection and repair, and technical consulting support. Our customers enjoy services throughout the operational life of our command-and-control systems. Most of these services are performed on-site.

We continue to maintain and upgrade our airborne software infrastructure to enhance the functionality, reliability and safety of our products. We regularly inspect, maintain and upgrade the fundamental communication network and transmission system to ensure the smooth communication between our aircraft and the command-and-control systems.

Operational Services

With our strategic positioning to be a UAM platform operator, we adopt an integrated business model by selling products and solutions and providing operational services.

For commercial operations, we have established a well-trained in-house air mobility operation team specifically for flight operations of our pilotless eVTOL aircraft, including the staff for route planning, flight operations, safety management, regulatory compliance, digital operational platform, sales and marketing. Our key team members have previous operational experience at leading aviation, airline and mobility companies, such as Airbus, Hainan Airlines, Hong Kong Airlines, Hong Kong Express, BMW, CITIC COHC, etc.

As of March 31, 2025, we and our customers have completed about 66,000 safe trial or demo flights in 19 countries across Asia, Europe and Americas, predominantly with the EH216-S pilotless eVTOL aircraft in China, mainly for aerial sightseeing and tourism applications. In this process, we have been exploring and improving operational procedures and safety rules, running our digital UAM operational platform on a trial basis, and developing feasible, replicable operational expertise and mode. It lays a solid foundation for our eVTOL operators to initiate commercial operations after required certifications are completed.

Competition

We operate in the emerging UAM industry, and provide various commercial solutions, including air mobility (consisting of human transportation and logistics), smart city management and aerial media solutions. Our air mobility solutions may be alternatives with better efficiency and economics to those offered by traditional industry players, such as helicopters and ground transportation service providers. We believe the primary competitive factors in our markets include technological innovation, safety, certification, quality, user experience, and operational and manufacturing efficiency.

We believe we are the first mover and a leader in air mobility solutions. We are the world's first company to secure the TC, PC, standard AC and OC for human-carrying pilotless eVTOL aircraft from the aviation authority, allowing for commercial operations and mass production of our eVTOL aircraft. In comparison, according to our knowledge, most of our domestic and foreign peer companies have no such certificates yet and may still need years for them to obtain. In addition, our EH216-S's unique features of small-sized, lightweight, pilotless, multi-rotor design, and autonomous flying and cluster management technologies enable higher safety, efficiency and economics for air taxi commercial operations in urban areas compared with other larger-sized, heavier, human-piloted, higher-cost eVTOL aircraft products. In other areas of our business, including aerial logistics, smart city management and aerial media solutions, we also face several major competitors in separate field. We believe that we are strategically positioned in the commercial UAM market with exceptional pilotless eVTOL aircraft technologies, innovation capabilities, certifications, broad use cases and leading positions in providing integrated smart city management solutions and aerial media solutions.

Intellectual Property

We have significant capabilities in the areas of engineering, development and design and have developed a number of proprietary products, systems and technologies. Our success depends in part on our ability to protect our core technologies and intellectual property. We rely on a combination of patents, patent applications, trade secrets, know-how, copyrights, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technologies. In addition, we have entered into confidentiality and non-disclosure agreements with our employees and business partners. The agreements we entered into with employees provide that all software, inventions, developments, works of authorship and trade secrets created by them during the course of their employment are our property.

As of March 31, 2025, we had 476 issued patents, 270 pending patent applications, 682 registered trademarks, and 25 registered software copyrights. We will continue to expand our intellectual property portfolio.

Seasonality

Because of our rapid growth, our overall business has not experienced a significant pattern of seasonality. However, some of our specific businesses such as aerial media solutions have showed seasonality in which we may receive more revenues from such business in major holidays. We may also have a lower number of deliveries of our products in the first quarter of each fiscal year due to holiday seasons. We may experience more pronounced seasonality as our business continues to expand.

Insurance

We maintain various types of insurance, employer's liability insurance, to protect assets in the event of any accident that might cause significant losses. We also purchase insurance policies that are either legally compulsory or required by our customers. For example, we maintain third-party liability insurance for UAVs, which is required for our commercial operation license. We have liability insurances with coverage and conditions that we consider appropriate. For example, we maintain aviation product liability insurance, which covers bodily injury or property damage caused by defects in our products. In relation to our human-carrying pilotless eVTOL aircraft in operation, we have maintained airplane body and flight insurance to cover damages to passengers and third-party liabilities. We believe that our insurance coverage is adequate to cover our key assets, facilities and liabilities.

PRC Regulation

This section sets forth a summary of the most significant rules and regulations that affect our business activities in China.

General Administration of Civil Aviation and Airspace Control

On October 30, 1995, the Standing Committee of the National People's Congress of the PRC, or the SCNPC, adopted the *Civil Aviation Law of the PRC*, or the Civil Aviation Law, which was subsequently amended on April 24, 2015, November 7, 2016, November 4, 2017, December 29, 2018, and April 29, 2021, respectively. The Civil Aviation Law sets forth the general principle and rules for administration of civil aviation as well as for domestic airspace control. Pursuant to this law, the CAAC, which is a State Council department, is currently in charge of civil aviation and has the general authority to supervise and administer civil aviation activities nationwide. The CAAC may promulgate regulations concerning civil aviation activities in accordance with laws enacted and decisions issued by the State Council and within the limits of the CAAC's authority. According to the Civil Aviation Law, the state has complete and exclusive sovereignty over the airspace above its territory. The division of airspace must take account of the needs of civil aviation, national defense and security, as well as the interests of the public, so as to ensure the reasonable, sufficient and efficient use of airspace. Detailed measures for airspace control will be formulated by the State Council and the Central Military Commission, or the CMC. In addition, pursuant to the Civil Aviation Law, the detailed rules of UAVs promulgated by the State Council and the CMC shall be followed.

Design, Manufacturing and Airworthiness Standard for UAVs

The Civil Aviation Law contains rules and regulations on airworthiness for all civil aircraft other than those used for flight missions by the military force, customs offices and police departments. The law mandates that the design of engines, screw propellers and apparatuses used in civil aircraft must be approved with a Type Certificate, whereas the production and maintenance of engines, screw propellers and apparatuses used in civil aircraft require a Production Certificate and a Maintenance Certificate, respectively. In addition, after the completion of nationality registration with the CAAC, the civil aviation will possess the nationality of PRC. An aircraft possessing the nationality of PRC may take flight if it holds an Airworthiness Certificate.

Designing our UAVs: Type Certification issued by the CAAC shows that the design of the aviation products or its component parts meet the requirements under applicable airworthiness regulations. Our passenger-carrying pilotless eVTOL aircraft, as a special category aircraft under Section 21.17 of Certification Procedures for Civil Aviation Products and Parts, or CCAR-21, is required to meet the criteria set forth in the *Special Conditions for Type Certification of EH216-S Unmanned Aircraft System*, or the Special Conditions, promulgated by the CAAC on February 9, 2022. The Special Conditions provided clear safety requirements for the type certification of the EH216-S, including flight performance, aircraft structures, design and manufacture, propulsion systems, data link, ground control station, etc. Following the Project Specific Certification Plan and the Certification Plan with solid means of compliance that the CAAC has approved, the EH216-S has obtained the type certificate officially issued by the CAAC, demonstrating that the EH216-S's model design complies with the CAAC's safety standards and airworthiness requirements, and that the EH216-S is qualified for conducting passenger-carrying commercial operations.

Manufacturing our UAVs: Production Certification issued by the CAAC shows we are able to manufacture our aircraft or components with approved quality system under an CAAC-approved type design. To obtain Production Certification from the CAAC, we must demonstrate that our organization and our personnel, quality manual, facilities, and quality system can produce our aircraft such that they conform to its approved design. In April 2024, we obtained the production certification issued by the CAAC allowing our mass production of the certified EH216-S passenger-carrying pilotless eVTOL aircraft.

Airworthiness Standard of our UAVs: Airworthiness Certification from the CAAC signifies that an aircraft possessing the nationality of PRC may take flight. On December 19, 2022, the CAAC published *Administration Procedure for Certification of the Airworthiness of Civil Unmanned Aerial Vehicle System Guidance*, or UAV Airworthiness Procedure, which is guide and regulate the type certificate, production certificate and airworthiness of Unmanned Aerial Vehicle System in medium and large size. According to UAV Airworthiness Procedure, airworthiness certificates for UAVs are divided into three categories, that is standard airworthiness certificate, special airworthiness certificate and special flight permit. Our EH216-S has obtained the standard airworthiness certificate issued by the CAAC after obtaining its type certificate in 2023.

On January 25, 2019, the CAAC published the *UAV Airworthiness Guidance based on Operational Risks*, or UAV Airworthiness Guidance, pursuant to which we are one of the airworthiness assessment pilot programs and would help the CAAC in developing UAV airworthiness standards and assessment rules. According to the UAV Airworthiness Guidance, the UAV airworthiness framework will be based on the assessment, classification and management of operational risks.

On January 20, 2020, the Department of Aircraft Airworthiness Certification of the CAAC issued the *Airworthiness Standards for Fixed-wing Unmanned Aerial Vehicle Systems Used for High-risk Cargo Transportation (Interim)*, which are mainly applicable to fixed-wing unmanned aerial vehicle systems used for feeder cargo transportation under high-risk operating conditions. In July 2020, the CAAC published *Data Specifications of Unmanned Aircraft Cloud System* for standard for cloud system of UAV. In August 2023, the CAAC approved our unmanned aircraft cloud system ("UACS") for trial operations based on the China Civil Aviation Regulation Part 91 AC-91-FS-2015-31. Some of our UAVs model may be required to meet specific industry requirements. In addition, on December 21, 2022, the CAAC promulgated *Analysis Guideline for Determination of the Classification and System Safety of Civil Unmanned Aerial Vehicle Airworthiness*, pursuant to which, the operation risks of UAVs shall be determined by severity and possibility of integrated adverse effects, based on the potential adverse effects during the operation of the civil unmanned aerial vehicle system.

Pending the enactment of the foregoing bills and the necessary judiciary and administrative interpretations and clarifications on some of the existing guidelines, the CAAC has put in place interim measures to allow for and regulate the testing of various forms of UAVs. To speed up the building of legal and criterion system for civil unmanned aerial vehicle, the CAAC also published *Guideline for the Construction of Regulation and Standard of Civil Unmanned Aerial Vehicles VI.0*, which will provide further details on airworthiness, flight operation and business operation.

Furthermore, in December 2023, the MIIT published *Several Provisions on the Administration of the Manufacture of Unmanned Civil Aircraft*, the Administration of the Manufacture of UAVs, which came into effect in January 2024. The Administration of the Manufacture of UAVs states that UAV manufacturers shall set unique product identification number for each of its UAVs, which includes the name code, product model code and serial number of the UAV manufacturer. UAV manufacturers shall file the information about their unique product identification numbers with the MIIT for the record before putting their UAVs on the market. UAV Manufacturers shall not install malicious programs in their UAVs. When the UAV is found to have risks such as network or data security defects or loopholes, the manufacturer shall take remedial measures immediately and to inform the user in a timely manner in accordance with the relevant regulations of the State, and report to the competent department of industry and information technology of the local people's government at or above the county level or the competent department of communications at the provincial level. The State encourages UAV manufacturers to use commercial cryptography and other technical means to protect network and information security in accordance with law.

Real-Name Registration of UAVs

As a manufacturer and seller of UAVs, we are required to collect certain information relating to our products and our customers and to submit such information to the relevant regional authorities pursuant to the *Circular of the General Office of the Ministry of Industry and Information Technology on Information Filing for Civil Unmanned Aerial Vehicle Production Enterprise and Products*, which took effect on May 23, 2017. We are also obligated to provide information relating to our UAV products and purchasers starting from June 2017 and pursuant to the *Administrative Provisions on the Real-name Registration of Private Unmanned Aerial Vehicles* issued by the CAAC. Information to be reported includes (i) the name, registered address and contact information of us as the manufacturer; (ii) the name and model detail of our UAV products; (iii) the empty weight and maximum take-off weight of our UAV products; (iv) the categorization of our UAV products in accordance with the CAAC guidelines, and (v) the name and contact information of purchasers of our UAVs. These administrative provisions regulate the use of private UAVs with a maximum take-off weight of 0.25 kilograms and above within the territory of the PRC, and direct owners of such private UAVs to register their UAVs on a real-name basis. Non-compliance will result in restrictions on the use of the relevant UAVs and penalties. We have historically complied with these requirements for our UAVs. The *Administrative Procedures for the Real-name Registration of Civil UAVs (Draft)* issued by the CAAC on March 30, 2020 make changes to the real-name registration process mainly for the purpose of making it more convenient for owners who purchase private UAVs. Specifically, it is stipulated that a manufacturer of UAVs shall register in advance the product information of its UAV products in the *UAV real-name registration system* in batches first, and then the owner of the UAV products can then search by the UAV serial number in the UAV real-name registration system for the pre-registered UAV system and submit additional personal information. On October 29, 2021, the CAAC promulgated *Civil Unmanned Aircraft Registration Management Procedures (Draft for Comment)* which requires real-name registration and nationality registration.

Operations of UAVs

- ***Airspace Control***

According to the *General Flight Rules* issued by the State Council and the CMC on October 18, 2007 and took effect on November 22, 2007, the overall flight control within the territory of the PRC is under the unified organization of and enforcement by the People's Liberation Army Air Force, and the various flight control departments shall exercise air traffic control in accordance with their respective responsibilities. Prior application must be filed and approval be obtained before any flight can be conducted within the PRC territory, including test flights for our UAVs, and take-offs relating to our aerial media solutions and logistics services.

Our PRC related PRC operating entities are required to obtain clearance from the local counterpart of the People's Liberation Army Air Force for the flight routes for our UAVs. Subject to any difference in policies adopted by the local authorities, approval for airspace and flight plan is normally granted by the local flight control department of the military. The flight plan shall also be filed with the local public security department and the CAAC. According to the National Airspace Basic Classification Method, or the Classification Method, which was promulgated by the CAAC on December 21, 2023 and came into effect on the same day, and the Airspace Management Regulations of the People's Republic of China (Draft for public comments), which was promulgated by the CAAC on November 8, 2023, the airspace is divided into 7 categories: A, B, C, D, E, G, W, among which, A, B, C, D, E are controlled airspace, G, W are uncontrolled airspace. Class A airspace is usually a space with a standard air pressure above 6000 meters (inclusive) to a standard air pressure above 20000 meters (inclusive). Class B airspace is usually designated over civil transport airports. Class C airspace is usually designated over civil general airports with towers. Class G airspace is usually airspace outside Class B and C airspace with a true height of less than 300 meters (except Class W airspace), and the mean sea level is less than 6,000 meters, which has no impact on military flights and civil aviation public transport flights. Class W airspace is usually part of the true height below 120 meters in Class G airspace. Class D or Class E airspace is the space except class A, B, C, G and W airspace, which can be selected according to operation and safety requirements. Among them, the standard air pressure height above 20,000 meters is uniformly classified as Class D airspace. For the use of airspace of categories D, E, G and W, the airspace user shall report to the relevant air traffic management authority or the unit responsible for the corresponding responsibilities. As an example of the general observations above, on November 19, 2018, the CAAC issued the *Flight Management Implementing Rule for UAVs in the Shenzhen Area (Interim)*, under which the South Military Zone Air Force is responsible for the piloting of UAVs within the municipal area of Shenzhen. An enterprise or individual who seeks a flight task approval shall file the application with the flight control department of the South Military Zone Air Force five days prior to such flight. The flight control department of the South Military Zone Air Force, after consulting the CAAC and the public security department, may grant its approval two days prior to the flight. After such approval and except for certain flights of mini-UAV with an empty weight of less than 0.25 kilogram, subject to certain other conditions, or small-UAV with an empty weight of less than 4 kilograms, subject to certain other conditions, a flight plan must be submitted via a designated reporting platform no later than 3:00 pm on the day prior to the flight and the flight control department of the South Military Zone Air Force will respond no later than 9:00 pm on the same day of filing and will distribute the relevant information to the public security department and the CAAC. Generally, for the flights of our UAVs, we, the VIE and the VIE's subsidiaries have established prior communications with the local flight control department, the public security authority and the local counterpart of the CAAC in seeking the necessary approvals and have ensured compliance with their respective instructions in all material respects.

- ***Geo-fencing***

In China, the CAAC issued the Standard of Fence of Unmanned Aircraft System in 2017. According to the Interim Regulation on the Administration of the Flight of Unmanned Aircraft published by the State Council and the CMC on May 31, 2023 and came into effect on January 1, 2024, the operation of an unmanned aircraft in flight activities shall prepare well for safe flight before conducting flight activities, check the status of the unmanned aircraft, and update geofencing and other information in a timely manner. The Rules for the Safe Management of Civilian Unmanned Aerial Vehicle Operations, which was published on January 1, 2024 and came into effect on the same day, further requires operators to equip the UAV with the appropriate airspace holding capacity through technical measures such as electronic geofencing.

Both our EH216-S and Falcon B have passed the tests of geo-fencing by the Civil UAS Inspection Center of China Academy of Civil Aviation Science and Technology (CAST), and obtained the certificate from the China National Accreditation Service for Conformity Assessment (CNAS) and ILAC-MRA in July 2019, which is internationally recognized.

- ***Pilot Operations***

The Department of Flight Standard, the Department of Aircraft Airworthiness Certification and the Office of Air Traffic Regulation of the CAAC, jointly issued the *Pilot Operation Rules (Interim) for Specific Unmanned Aircraft*, or the Interim Rules, on February 1, 2019, pursuant to which, unmanned aircraft are classified into nine categories based on their empty weight and takeoff gross weight. In particular, Class I captures unmanned aircraft with empty weight and takeoff gross weight between 0 to 1.5 kg (including 1.5 kg); Class II captures unmanned aircraft with empty weight between 1.5 kg and 4 kg (including 4 kg) and takeoff gross weight between 1.5 kg and 7 kg (including 7 kg); Class III captures unmanned aircraft with empty weight between 4 kg and 15 kg (including 15 kg) and takeoff gross weight between 7 kg and 25 kg (including 25 kg); Class IV captures unmanned aircraft with empty weight between 15 kg and 116 kg (including 116 kg) and takeoff gross weight between 25 kg and 150 kg (including 150 kg); Class XI captures unmanned aircraft with empty weight between 116 kg and 5,700 kg (including 5,700 kg) and takeoff gross weight between 150 kg and 5,700 kg (including 5,700 kg); Class XII captures unmanned aircraft with empty weight and takeoff gross weight in excess of 5,700 kg. The Interim Rules are applicable to Class IV unmanned aircraft, Class III unmanned aircraft with high risks and the pilot operation of which would need a pre-assessment in the belief of the authority, Class XI and Class XII unmanned aircraft with low risks and in relation to which the authority believes a pilot operation assessment is sufficient. According to the classification above, our EH216 series products belong to Class XI and Falcon B belongs to Class III. According to the Interim Rules, the applicant for the pilot operation of any UAV that falls within any of the foregoing applicable classes shall first submit a proposal for initial discussion and application with the CAAC and shall then conduct a pre-pilot operation safety evaluation based on specific operation risk assessment, or SORA. The applicant shall subsequently verify the operation risks based on its initial operation, following which the CAAC shall issue the relevant approval if its assessment team confirms that the risks of pilot operation can be appropriately controlled and are acceptable. Upon its receipt, the applicant shall maintain the approval, together with the operation rules and a complete manual for the CAAC's inspection and supervision. The pilot operation will be suspended or terminated under certain circumstances, such as any non-compliance with the approved letter, the presence of uncontrollable operation risks and the voluntary surrender by the applicant. Operation records relating to pilot operations shall be maintained, including operation manual, list of unmanned aircraft, maintenance record of aircraft, and qualification of personnel. The applicant shall also purchase insurance policy for third party liabilities. In addition, "risks" is defined under the Interim Rules to take into account both the frequencies (or probabilities) of the events and the level of severity. It also includes both ground risks and risks in air.

The Interim Regulation on the Administration of the Flight of Unmanned Aircraft was published by the State Council and the CMC in May 2023 and came into effect on January 1, 2024, which provides that the person operating a small, medium or large UAV shall apply to the competent civil aviation department under for a corresponding operator's license of UAVs. The person operating a micro or light UAV does not need to obtain an operator's license, but shall be proficient in the operation methods for relevant models and understand the risk warning information and relevant management systems.

- ***UAV Commercial Operation License***

The *Administrative Measures for Commercial Flight Activities of Unmanned Aerial Vehicle for Civil Use (Interim)* promulgated by CAAC on March 21, 2018 and taking effect on June 1, 2018, asserts jurisdiction over the commercial operation of any UAV with empty weight of more than 0.25 kilograms and regulates a broad range of UAV activities including aerial spraying, photography, aerial performance flight and UAV operator training. On August 4, 2020, the Ministry of Transport of the PRC promulgated Provisions on the Administration of Operation License for General Aviation, effective on January 1, 2021, pursuant to which, an enterprise engaging in general aviation operations shall obtain a general aviation enterprise operation license. Civil aircraft includes manned aircraft and unmanned aircraft. The company operating the regulated activities must first obtain a General Aviation Enterprise Operation License from CAAC for using UAVs in such activities, and the applicant shall meet certain criteria including, among others, (a) the applicant shall be a corporation having a PRC national as its legal representative; (b) the applicant shall possess proper civil aircraft meeting certain requirements, such as the completion of registration in PRC and the compliance with the related airworthiness requirements, standard airworthiness certificate for civil aircraft used for passenger carrying and human carrying business activities (unless otherwise stipulated by CAAC), the compatibility with the commercial general aviation activities to be engaged in, at least two civil aircraft for engaging in passenger carrying business or one civil aircraft for human-carrying and other business; (c) there are pilots who are suitable for civil aircraft, having professional training and obtaining related license; and (d) the applicant shall have purchased third party liability insurance policy on the ground. The VIE and its subsidiaries have obtained the necessary operation licenses for aerial spraying, aerial photography, operator training, flight show, aerial media solutions and other purposes. The regulations on operations for UAVs are still evolving and may be subject to differing interpretations or significant changes. However, in the northwest region of China, the *Administrative Measures for Logistics Services of Civil Unmanned Aerial Vehicle in Northwest Region (Interim)* promulgated by CAAC Northwest Regional Administration on April 3, 2019, stipulates that the company operates logistic services in Shaanxi Province, Gansu Province, Ningxia Province and Qinghai Province by UAVs shall obtain an operating license for logistic service from CAAC Northwest Regional Administration. We are not operating logistic services in northwest region of China at the current stage. We may be required to obtain the Operation License for logistic service if we operate logistic services in Northwest region in the future. On May 31, 2023, the Provisional Regulation for the Flight Administration of Unmanned Aerial Vehicles was promulgated by the State Council and the Central Military Commission and came into effect on January 1, 2024, which is the first administrative regulation on the management of unmanned aerial vehicles in China. It stipulates that any entity using civil UAVs other than micro ones to conduct flight activities shall satisfy the following conditions and apply to the competent civil aviation department under the State Council or regional civil aviation authority (hereinafter collectively referred to as the “civil aviation authorities”) for operation certificate of civil UAVs (hereinafter referred to as the “OC”): (i) having the management body and personnel required for safe operation and operating personnel that meet the provisions hereof; (ii) having the UAVs and relevant facilities and equipment that meet the requirements for safe operation; (iii) having the management systems and operating procedures required for safe operation and ability to continuously conduct safe operation in accordance with the systems and procedures; and (iv) an entity engaging in for-profit activities shall be a profit-making legal person.

- ***Pilot and Operator License***

On August 31, 2018, the Flight Standard Department of the CAAC issued the *Regulations on the Administration of Civil Unmanned Aerial Vehicles Pilots*, according to which a UAV pilot must obtain the relevant UAV pilot license depending on the type and specifications of the UAV operated. On December 23, 2021, CAAC promulgated *Consultation Circular Soliciting Comments on Regulations on the Administration of Civil Unmanned Aerial Vehicles Pilots*, or Draft New Regulation on UAV Pilots, which provides that in relation to the operation of UAV systems and that of UAVs in clusters, at scale or otherwise in a distributed manner, the pilots responsible for safe operation shall hold a license, and other person involving in control tasks do not need to hold a license, but should complete the relevant training carried out by the operator. The regulations on operations for UAVs are still evolving and can be subject to differing interpretations or significant changes. Distributed operation refers to the mode of operating UAV systems through a collection of multiple sub-units and communication nodes and their deployment to multiple sites or terminals for collaborative operation. As of the date of this annual report, 52 of our employees have obtained UAV class III pilot licenses and class IV pilot licenses, which satisfied the requirement to operate these categories of our UAVs. To the extent our UAVs are operated and controlled through distributed operation (such as during the delivery of our aerial media and smart management solutions), we may be required to obtain any official pilot license for certain pilot issued by the CAAC according to the Draft New Regulation on UAV Pilots. Since the revised draft has not been formally adopted as of the date of this annual report, the revised draft and its anticipated adoption or effective date are subject to further changes with substantial uncertainty. The pilots who operate our UAVs also completed the training provided by our company on the basis of the CAAC UAV Pilot Licenses.

In addition, the draft bill of the *Interim Measures for Flight Administration of Unmanned Aerial Vehicle* published by the CAAC on January 26, 2018 stipulates that any unit or individual that organizes UAV flight activities in a distributed manner shall be subject to safety review and obtain a safe operation license. The individual operator of UAV systems or clusters or distributed operations are however exempted for such licensing requirement. We may be required to obtain the safe operation license for certain component of our business once the above draft bill comes into effect. This draft bill was further reviewed by standing meeting of State Council on April 7, 2023.

Operators of our UAVs may be subject to additional licensing requirements. On December 29, 2015, the CAAC issued the *Rules on Operation of Light and Small Unmanned Aircraft (Trial)*, pursuant to which, pilots of specified UAVs shall meet certain qualification, and are prohibited from consumption of alcohol and drugs as well as careless piloting. Our UAV operators have complied with all the above requirements in material respects.

- ***Import and Export***

On December 31, 2005, the Ministry of Commerce and the General Administration for Customs jointly issued the *Measures for the Administration on Import and Export License for Dual-use Items and Technologies*, pursuant to which a license is required for the exportation of any dual-use goods, products and technologies of the PRC included in a control list issued by the Ministry of Commerce on December 30, 2022, effective on January 1, 2023. Notably, certain types of UAVs are *subject* to the foregoing export license requirements, such as UAVs with (a) a maximum endurance time greater than or equal to 1 hour, (b) maximum endurance time greater than or equal to half an hour but less than 1 hour and the ability to take-off and conduct stable flight against a wind speed of no less than 46.3 kilometer/hour; (c) aircraft range equal to or higher than 300 kilometers with payload of more than 500 kg; (d) automatic controlling system and navigation capability containing aerosol preparation for planting with volume of 20 liters or being capable of installing aerosol preparation system for planting with volumes of 20 liters after designing and modification. We may be required to obtain the necessary license for the exportation of certain of our products.

- ***Wireless Communication***

Our UAVs and command-and-control centers have installed certain radio transmission equipment and telecommunication equipment. For radio transmission equipment, pursuant to the Regulations on the Administration of Radio in the PRC promulgated by the State Council and CMC, with effect from December 1, 2016, radio transmission equipment produced or imported for the purpose of sale and use in the PRC shall comply with laws and regulations in respect of product quality and administration of state radio, as well as other applicable national standards. Except for micro power short-distance radio transmission equipment, for any production or import of other radio transmission equipment for domestic sale and use, an application for model confirmation shall be filed with the radio regulatory authority of the state. According to Telecommunications Regulation of PRC promulgated by State Counsel on September 25, 2000, amended in July 2014 and February 2016, the government stipulates a network connection licensing system for telecommunications equipment. The telecommunications equipment accessing a public telecommunications network shall comply with the national standards, and obtain a network access certificate. We purchase certain equipment and models with Transmission Equipment Type Approval Certificate and Network Access Certificate from our supplier.

- ***Bidding and Construction***

Our undertaking of the development of command-and-control centers is subject to bidding laws and constructions laws.

On December 27, 2017, the SCNPC promulgated the *Bidding Law of the PRC*. The Bidding Law provides that two or more legal persons or other organizations may form a consortium to bid jointly as one bidder. Each member of a consortium shall have the relevant capability to undertake the bidding project; where the qualification criteria for bidders are imposed either by State regulations or terms of the bidding documents, each member of a consortium shall satisfy the corresponding qualification criteria. The consortium members shall each sign a joint bidding agreement to clearly specify the work and responsibilities to be undertaken by each party, and submit the joint bidding agreement to the bid inviter together with the bid.

On November 1, 1997, the SCNPC promulgated the *Construction Law of PRC*, which was amended on April 22, 2011 and April 23, 2019. The Construction Law provides that construction enterprises, survey units, design units and project supervision units engaging in construction activities shall be classified under different qualification grades based on certain criteria such as their registered capital, technical professionals team, technical equipment owned and track records of completed construction projects, etc., and may engage in construction activities within the scope permitted for their qualification grade upon passing examination of qualifications and obtaining the qualification certificate for the corresponding grade. Contractor of construction projects shall also possess a qualification certificate. Construction enterprises are prohibited from contracting projects beyond the scope of business permitted for their qualification grade or in any form in the name of another construction enterprise. A construction enterprise must not allow another organization or individual to use their qualification certificate or business license to contract any form of construction projects. According to the Construction Law, Contractors contracting projects without obtaining a qualification certificate shall be clamped down and be subject to a fine; illegal income, if any, shall be confiscated.

We entered into certain construction agreements in relation to our smart city management projects with the necessary construction qualifications held by our third-party partners on these projects. These projects are bidden jointly with qualified entity and sub-contracted to qualified entity. If we are found to have violated the applicable bidding laws and construction laws, we may be subject to fine. We will continue to cooperate with other partners with qualification for current smart city management projects.

- ***Product Liability and Tort Liability***

Pursuant to the Product Quality Law of the PRC, which was promulgated on February 22, 1993 and subsequently amended on July 8, 2000, August 27, 2009 and December 29, 2018, the production or sale of products that do not meet applicable health and safety standards and requirements is prohibited. Products must not pose unreasonable dangers to human or property. Where a defective product causes physical injury to a person or damage to property, the aggrieved party may make a claim for compensation from the producer or the seller of the product. Producers and sellers of non-compliant products may be ordered to cease production and sale of such products, subject to fines and/or revocation of business license. Non-compliant products, as well as earnings attributable to the sales of such products may also be confiscated.

In addition, pursuant to the *Tort Law of the PRC*, promulgated by the SCNPC on December 26, 2009 and taking effect since July 1, 2010, the manufacturer of defective products that cause damage shall bear tort liability. On May 28, 2020, the Third Session of the 13th National People's Congress passed the Civil Code of the People's Republic of China, which took effect on January 1, 2021 and replaced the *Tort Law of the PRC*. Where defects are discovered after the relevant products are put in circulation, the manufacturer and the seller shall promptly adopt remedial measures such as warnings and product recalls, failing which, the manufacturer and the seller will be liable for tort claims.

- ***Consumer Rights Protection***

Our business is subject to a variety of consumer protection laws, including the *PRC Consumer Rights and Interests Protection Law*, as amended on October 25, 2013, which imposes stringent obligations on business operators. Failure to comply with these consumer protection laws could subject us to administrative sanctions, such as the issuance of warning, confiscation of income, imposition of fines, order to cease business operations, revocation of business licenses, as well as potential civil and criminal liabilities.

- ***Internet Information Security and Privacy Protection***

In November 2016, the SCNPC promulgated the *Cyber Security Law of the PRC*, or the Cyber Security Law, which became effective on June 1, 2017. The Cyber Security Law requires that a network operator, which includes, among others, internet information services providers, to take technical measures and/or other necessary measures in accordance with applicable laws, regulations and national and industrial standards, to ensure the safe and stable operation of its networks. We are considered an "internet information service provider" as we operate website and mobile application and providing certain internet services mainly through our mobile application. The Cyber Security Law further requires internet information service providers to formulate contingency plans for network security incidents, report to competent departments immediately upon the occurrence of any incident endangering cyber security and take corresponding remedial measures. Internet information service providers are also required to maintain the integrity, confidentiality and availability of network data. The Cyber Security Law reaffirms the basic principles and requirements specified in other existing laws and regulations on personal data protection, such as the requirements on the collection, use, processing, storage and disclosure of personal data, and internet information service providers being required to take technical and other necessary measures to ensure the security of the personal information they have collected and prevent the personal information from being divulged, damaged or lost. Any violation of the Cyber Security Law may subject the internet information service provider like us to warnings, fines, confiscation of illegal gains, revocation of licenses, cancellation of filings, shutdown of websites or criminal liabilities.

The recommended national standard, *Information Security Technology Personal Information Security Specification*, which became effective in October 2020, puts forward specific refinement requirements on the collection, preservation, use, sharing, transfer, and public disclosure of personal information. Although it is not mandatory, in the absence of clear implementation rules and standards for the law on cyber security and other personal information protection, it will be used as the basis for judging and making determinations. On November 28, 2019, The *Notice of Identification Method of Application Illegal Collection and Use of Personal Information* was issued, which provides a reference for the identification of illegal collection and use of personal information by mobile apps, and provides guidance for app operators' self-inspection and self-correction and netizens' social supervision.

On June 10, 2021, the Standing Committee of the National People's Congress of China promulgated the *Data Security Law of PRC*, or Data Security Law, which took effect in September 2021. The Data Security Law sets forth data security and privacy related compliance obligations on entities and individuals carrying out data related activities. The Data Security Law also introduces a data classification and layered protection system based on the importance of data and the degree of impact on national security, public interests or legitimate rights and interests of individuals or organizations when such data is tampered with, destroyed, leaked or illegally acquired or used. In addition, the Data Security Law provides a national security review procedure for those data activities that may affect national security, and imposes export restrictions on certain data and information. According to the PRC National Security Law, the State shall establish institutions and mechanisms for national security review and regulation, and conduct national security review on certain matters that affect or may affect PRC national security, such as key technologies and IT products and services. In early July 2021, regulatory authorities in China launched cybersecurity investigations with regard to several China-based companies that are listed in the United States.

On July 10, 2021, the CAC released the revised draft of *Cybersecurity Review Measures (for public comments)*. On December 28, 2021, the CAC, NDRC, MIIT, the MPS, the Ministry of National Security, the MOF, the MOFCOM, the People's Bank of China, the SAMR, the National Radio and Television Administration, the CSRC, the National Administration of State Secrets Protection and the State Cryptography Administration jointly released the *Cybersecurity Review Measures*, which took effect on February 15, 2022. Pursuant to the Cybersecurity Review Measures, network platform operators with information of over one million users shall be subject to cybersecurity review before listing abroad. The cybersecurity review will evaluate, among others, the risk of critical information infrastructure, core data, important data, or the risk of a large amount of personal information being influenced, controlled or maliciously used by foreign governments after going public, and Cyber information security risk.

On August 17, 2021, the State Council promulgated the *Regulations on the Protection of the Security of Critical Information Infrastructure*, or the CIIO Regulations, which took effect in September 2021. The CIIO Regulations supplement and specify the provisions on the security of critical information infrastructure as stated in the Cyber Security Law. The CIIO Regulations provide, among others, that protection department of certain industry or sector shall notify the operator of the critical information infrastructure in time after the identification of certain critical information infrastructure. According to the CIIO Regulations, operators of certain industries or sectors that may endanger national security, people's livelihood and public interest in case of damage, function loss or data leakage may be identified as critical information infrastructure operators by the CAC or the respective industrial regulatory authorities once they meet the identification standards promulgated by the governmental authorities.

On August 20, 2021, the Standing Committee of the National People's Congress of China promulgated the *Personal Information Protection Law of the PRC*, or the Personal Information Protection Law, which took effect in November 2021. As the first systematic and comprehensive law specifically for the protection of personal information in the PRC, the Personal Information Protection Law provides, among others, that (i) an individual's separate consent shall be obtained before operation of such individual's sensitive personal information, e.g., biometric characteristics and individual location tracking, (ii) personal information operators operating sensitive personal information shall notify individuals of the necessity of such operations and the influence on the individuals' rights, (iii) if personal information operators reject individuals' requests to exercise their rights, individuals may file a lawsuit with a People's Court.

Furthermore, on May 28, 2020, the National People's Congress of the PRC approved the PRC Civil Code, which came into effect on January 1, 2021. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information should follow the principles of legitimacy, properness and necessity.

On July 7, 2022, the CAC issued the *Measures for the Security Assessment of Outbound Data Transfer*, pursuant to which, the data processor shall apply to the CAC for the security assessment via the local provincial-level cyberspace administration authority for an outbound data transfer under following circumstances: (i) outbound transfer of important data by a data processor; (ii) outbound transfer of personal information by a critical information infrastructure operator or a personal information processor who has processed the personal information of more than 1,000,000 people; (iii) outbound transfer of personal information by a personal information processor who has made outbound transfers of the personal information of 100,000 people cumulatively or the sensitive personal information of 10,000 people cumulatively since 1 January of the previous year; and (v) other circumstances as specified by the CAC. The assessment results of the data exit are valid for two years.

In addition, on November 14, 2021, *the Administration Regulations on Cyber Data Security (Draft for Comments)* was proposed by the CAC for public comments until December 13, 2021. On September 24, 2024, PRC State Council promulgated the *Administration Regulations on Cyber Data Security*, or the Cyber Data Security Regulation, which became effective on January 1, 2025. It sets out general guidelines, protection of personal information, security of important data, security management of cross-border data transfer, obligations of internet platform operators, supervision and management, and legal liabilities. Network data processors should in accordance with the provisions of laws and administrative regulations and the mandatory requirements of national standards, and on the basis of multi-level protection of cyber security, strengthen the protection of network data security, establish and perfect the system of network data security management, and take technical measures such as encryption, backup, access control and security authentication as well as other necessary measures to protect network data from being falsified, destroyed, divulged or illegally acquired or used, dispose of network data security incidents, prevent illegal and criminal activities aiming at and using network data, and assume primary responsibility for the security of the network data handled by them. Moreover, network products and services provided by a network data processor shall comply with the compulsory requirements of the relevant national standards; in the case of any risk such as security defect or bug discovered to be associated with a network product or service, the network data processor shall take remedial measures forthwith, notify users in a timely manner and report the same to the relevant competent authority in accordance with the provisions; in the case of any harm to the national security or public interest, the network data processor shall also report the same to the relevant competent authority within 24 hours. The Cyber Data Security Regulation requires the data processors that carry out network data processing activities that affect or may affect national security, shall undergo a national security review in accordance with relevant national laws and regulations. In addition, where it is impossible to avoid the collection of unnecessary personal information by using automatic collection technology or an individual's personal information without obtaining his/her consent according to the law, or an individual deregisters his/her account, the cyber data processor shall delete or anonymize the personal information.

On March 22, 2024, the CAC enacted the *Provisions on Promoting and Regulating Cross-Border Data Flows*, or the Cross-Border Data Flows Provisions, further regulating that a data processor's responsibility to conduct cybersecurity review such as applying for the data export security assessment, submitting the standard contract filing, or obtaining the compliance certification can be exempted under certain circumstances, including, among others: (1) an individual's information must be provided abroad for entering into or performing a contract which the individual is a contracting party, such as for cross-border shopping, cross-border delivery, cross-border remittance, cross-border payment, cross-border account opening, air ticket and hotel reservation, visa processing and examination services; (2) an employee's information must be provided abroad for human resource management under the labor-relating rules and regulations and a collective contract signed in accordance with the law; (3) an individual's information that must be provided abroad to protect the safety of his/her life and property under emergency circumstances; and (4) the cumulative number of the individuals' information that a data processor (other than CIIO) transferred abroad in a year since January 1 is smaller than 100,000 individuals and no sensitive personal information is included.

However, the relationship between the Data Security Law of the PRC and the implemented National Security Law of the PRC, the Cyber Security Law of the PRC, the Confidentiality Law of the PRC and the Personal Information Protection Law of the PRC needs to be carefully clarified.

Intellectual Property Rights

- ***Patent Law***

According to the *Patent Law of the PRC* (as amended in 1992, 2000, 2008 and 2020), or the Patent Law, the State Intellectual Property Office is responsible for administering patent laws in the PRC. The provincial, autonomous region and municipal level patent administration departments are responsible for the administration of patent laws within their respective jurisdictions. The Chinese patent system adopts a first-to-file principle, which means that when more than one person files patent applications with respect to the same invention, the person who files the application first will obtain the patent of the invention. To be patentable, an invention or a utility model must meet three criteria: novelty, inventiveness and practicability. A patent is valid for twenty years in the case of an invention, ten years in the case of utility models and fifteen years in the case of designs.

- ***Regulations on Copyright***

The *Copyright Law of the PRC*, or the Copyright Law, which took effect on June 1, 1991 and was amended in 2001, 2010 and 2020, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, own copyright in their copyrightable works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. Copyright owners enjoy certain legal rights, including right of publication, right of authorship and right of reproduction. The Copyright Law also extends copyright protection to internet activities, products disseminated over the internet and software products. In addition, the Copyright Law provides for a voluntary registration system administered by the China Copyright Protection Center, or the CPCC. According to the Copyright Law, an infringer of the copyrights shall be subject to various civil liabilities, which include ceasing infringement activities, making apology to the copyright owners and compensating the copyright owners for his/her loss. Infringers of copyright may also be subject to fines and/or administrative or criminal liabilities in severe situations. In order to further implement the Regulations on Computer Software Protection, the National Copyright Administration issued the *Measures for the Registration of Computer Software Copyright* on February 20, 2002, which specify detailed procedures and requirements with respect to the registration of software copyrights.

Pursuant to the *Computer Software Copyright Protection Regulations* promulgated by the State Council on December 20, 2001 and amended on January 30, 2013, software copyright owner may complete registration formalities with a software registration authority recognized by the State Council's copyright administrative department. The software copyright owner may authorize others to exercise that copyright, and is entitled to receive remuneration.

- ***Trademark Law***

Trademarks are protected by the *Trademark Law of the PRC* which was adopted on August 23, 1982 and subsequently amended in 1993, 2001, 2013 and 2019 (to take effect on November 1, 2019) as well as by the *Implementation Regulations of the PRC Trademark Law* adopted by the State Council in 2002 and as most recently amended on April 29, 2014. The Trademark Office under the State Administration for Industry and Commerce takes charge of trademark registrations. The Trademark Office grants a ten-year term to registered trademarks which term may be renewed for another ten-year period upon request by the trademark owner. A trademark registrant may license its registered trademarks to another party by entering into trademark license agreements, which must be filed with the Trademark Office for its record. As with trademark registrations, the Trademark Law has adopted a first-to-file principle. If a trademark applied for is identical or similar to another trademark which has already been registered or subject to a preliminary examination and approval for use on the same or similar kinds of products or services, such trademark application may be rejected. Any person applying for the registration of a trademark may not injure existing trademark rights first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

- ***Regulations on Domain Names***

The MIIT promulgated the *Measures on Administration of Internet Domain Names*, or the Domain Name Measures, on August 24, 2017, which took effect on November 1, 2017 and replaced the *Administrative Measures on China Internet Domain Names* promulgated by the MIIT on November 5, 2004. According to the Domain Name Measures, the MIIT is in charge of the administration of PRC internet domain names. The domain name registrations follow a first-to-file principle. Applicants for registration of domain names must provide the true, accurate and complete information of their identities to domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedures.

Foreign Investment

- ***The Foreign Investment Law***

On March 15, 2019, the SCNPC approved the *Foreign Investment Law of the PRC*, which took effect on January 1, 2020 and replace three existing laws on foreign investments in China, namely, the *PRC Equity Joint Venture Law*, the *PRC Cooperative Joint Venture Law* and the *Wholly Foreign-owned Enterprise Law*, together with their implementation rules and ancillary regulations. The *Foreign Investment Law* embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic invested enterprises in China. The *Foreign Investment Law* establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition.

According to the *Foreign Investment Law*, “foreign investment” refers to investment activities directly or indirectly conducted by one or more natural persons, business entities, or otherwise organizations of a foreign country (collectively referred to as “foreign investor”) within China, and the investment activities include the following situations: (i) a foreign investor, individually or collectively with other investors, establishes a foreign-invested enterprise within China; (ii) a foreign investor acquires stock shares, equity shares, shares in assets, or other like rights and interests of an enterprise within China; (iii) a foreign investor, individually or collectively with other investors, invests in a new project within China; and (iv) investments in other means as provided by laws, administrative regulations, or the State Council.

According to the *Foreign Investment Law*, the State Council will publish or approve to publish a catalogue for special administrative measures, or the “negative list.” The *Foreign Investment Law* grants national treatment to foreign invested entities, except for those foreign invested entities that operate in industries deemed to be either “restricted” or “prohibited” in the “negative list”. The *Foreign Investment Law* provides that foreign invested entities operating in foreign restricted or prohibited industries will require market entry clearance and other approvals from relevant PRC governmental authorities.

Furthermore, the *Foreign Investment Law* provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the implementing of the *Foreign Investment Law*.

In addition, the *Foreign Investment Law* also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except for special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within China, may be freely remitted inward and outward in RMB or a foreign currency. Also, foreign investors or the foreign investment enterprise should be imposed legal liabilities for failing to report investment information in accordance with the requirements.

On December 26, 2019, the State Council promulgated the *Implementation Regulations on the Foreign Investment Law*, which came into effect on January 1, 2020. It further requires that foreign-invested enterprises and domestic enterprises shall be treated equally with respect to policy making and implementation. Pursuant to the *Implementation Regulations on the Foreign Investment Law*, if the existing foreign-invested enterprises fail to change their original forms as of January 1, 2025, the relevant market regulation departments will not process other registration matters for these enterprises, and may disclose their relevant information to the public.

On December 30, 2019, the MOFCOM and the State Administration for Market Regulation jointly issued the *Measures for Reporting of Foreign Investment Information*, or the *Foreign Investment Information Measures*, which came into effect on January 1, 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in the PRC, foreign investors or foreign-invested enterprises shall submit investment information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the State Administration for Market Regulation. Foreign investors or foreign-invested enterprises shall disclose their investment information by submitting reports for their establishments, modifications and cancellations and their annual reports in accordance with the *Foreign Investment Information Measures*. If a foreign-invested enterprise investing in the PRC has finished submitting its reports for its establishment, modifications and cancellation and its annual reports, the relevant information will be shared by the competent market regulation department to the competent commercial department, and does not require such foreign-invested enterprise to submit the reports separately.

The establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law, which was initially promulgated by the SCNPC on December 29, 1993 and was most recently amended on December 29, 2023. The current PRC Company Law will come into effect on July 1, 2024. The PRC Company Law generally governs two types of companies, limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested companies that are also subject to the operation of other laws and regulations applicable to foreign investment.

- ***Foreign Investment Industries Guidance Catalogue***

On June 28, 2017, the Ministry of Commerce of the People's Republic of China, or the MOFCOM, and the National Development and Reform Commission, or the NDRC, jointly promulgated the *Guidance Catalogue of Industries for Foreign Investment (Revised in 2017)*, or the Catalogue, which came into effect on July 28, 2017. The Catalogue includes the Catalogue of Industries for Encouraging Foreign Investment, or the Encouraged Catalogue, and the Special Administrative Measures for Access of Foreign Investment (Negative List), or the Negative List. The Encourage Catalogue sets forth the industries and economic activities that foreign investment in China is encouraged to be engaged in. The Negative List sets forth the prohibited or restricted industries or economic activities for foreign investment in China. The Encouraged Catalogue was amended and promulgated on October 26, 2022, and the Negative List was amended on June 28, 2018, June 30, 2019, June 23, 2020, December 27, 2021, and September 6, 2024. Any industry not listed in the Encouraged Catalogue and the Negative List is a permitted industry. Pursuant to the Negative List, a company that designs and manufactures UAVs can be wholly owned by foreign investors.

Foreign Exchange

- ***General Administration of Foreign Exchange***

Under the *Regulation of the People's Republic of China on Foreign Exchange Administration* promulgated on January 29, 1996 and most recently amended on August 5, 2008 and various regulations issued by the State Administration of Foreign Exchange, or the SAFE, and other relevant PRC government authorities, Renminbi is convertible into other currencies for current account items, such as trade-related receipts and payments and payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for capital account items, such as direct equity investments, loans and repatriation of investment, require the prior approval from the SAFE or its local office.

Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may not repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaged in settlement and sale of foreign exchange pursuant to relevant SAFE rules and regulations. For foreign exchange proceeds under the capital accounts, approval from the SAFE is generally required for the retention or sale of such proceeds to a financial institution engaged in settlement and sale of foreign exchange.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration *Policies for Direct Investments*, or the SAFE Circular No. 59 promulgated by the SAFE on November 19, 2012, which became effective on December 17, 2012 and was further amended on May 4, 2015, and again October 10, 2018, and December 30, 2019, approval of the SAFE is not required for opening a foreign exchange account and depositing foreign exchange into the accounts relating to the direct investments. The SAFE Circular No. 59 also simplified foreign exchange-related registration required for foreign investors to acquire equity interests in PRC companies and further improved the administration on foreign exchange settlement for foreign-invested enterprises.

The *Circular on Further Simplifying and Improving the Foreign Currency Management Policy on Direct Investments*, or the SAFE Circular No. 13, effective from June 1, 2015, and was amended on December 30, 2019, removes the requirement of administrative approvals for foreign exchange registration of direct domestic investments and direct overseas investments and simplifies the procedure of foreign exchange-related registration. Pursuant to the SAFE Circular No. 13, the investors shall register with banks for direct domestic investment and direct overseas investments.

The *Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange of Foreign-invested Enterprises*, or the SAFE Circular No. 19, which was promulgated by the SAFE on March 30, 2015 and became effective on June 1, 2015, provides that a foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange administration has confirmed monetary capital contribution rights and interests (or for which the bank has registered the injection of the monetary capital contribution into the account). Pursuant to the SAFE Circular No. 19, for the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capital on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise must first go through domestic re-investment registration and open a corresponding account for foreign exchange settlement pending payment with the foreign exchange administration or the bank at the place where it is registered. According to the *Circular of the State Administration of Foreign Exchange on Abolishing and Nullifying Five Regulatory Documents on Foreign Exchange Administration and Seven Regulatory Documents on Foreign Exchange Administration* promulgated on December 30, 2019, there are no longer restrictions on the use of foreign exchange settlement in the special overseas inflow deposit account and the special domestic inflow deposit account.

The *Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts*, or the SAFE Circular No. 16, which was promulgated by the SAFE and became effective on June 9, 2016, provides that enterprises registered in the PRC may also convert their foreign debts from foreign currency into Renminbi on a self-discretionary basis. The SAFE Circular No. 16 also provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis, which applies to all enterprises registered in the PRC.

According to the SAFE Circular No. 13, the *Administrative Rules on the Company Registration* that was promulgated by the State Council on June 24, 1994 and most recently amended on February 6, 2016, and other laws and regulations governing foreign invested enterprises and company registrations, the establishment of a foreign invested enterprise and any capital increases and other major changes in a foreign invested enterprise shall be registered with a designated bank at the place of its registration and the State Administration for Market Regulation, or the SAMR, or its local counterparts, and be filed via the foreign investment comprehensive administrative system, or the FICMIS, if such foreign invested enterprise does not involve special access administrative measures prescribed by the PRC government.

On October 23, 2019, the SAFE promulgated the *Notice of the State Administration of Foreign Exchange on Further Promoting the Convenience of Cross-border Trade and Investment*, or the SAFE Circular 28. The SAFE Circular 28 stipulates that non-investment FIEs may use capital to carry out domestic equity investment in accordance with the law provided that such investment does not violate the Negative List and the projects invested are genuine and in compliance with laws and regulations.

- ***Loans by the Foreign Companies to their PRC Subsidiaries***

A loan made by foreign investors to a foreign invested enterprise in which it has an equity interest is considered to be foreign debt in China and is regulated by various laws and regulations, including the *Regulation of the People's Republic of China on Foreign Exchange Administration*, the *Interim Provisions on the Management of Foreign Debts*, the *Statistical Monitoring of Foreign Debts Tentative Provisions*, the *Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt*, and the *Administrative Measures for Registration of Foreign Debts*. Under these rules and regulations, a shareholder loan in the form of foreign debt made to a PRC entity does not require the prior approval of the SAFE. However, such foreign debt must be registered with and recorded by the SAFE or its local branches within fifteen business days after execution of the relevant agreement. Pursuant to these rules and regulations, the balance of the foreign debts of a foreign invested enterprise shall not exceed the difference between the total investment and the registered capital of the foreign invested enterprise, or Total Investment and Registered Capital Balance.

Pursuant to the Interim Provisions of the State Administration for Industry and Commerce on the Ratio of the Registered Capital to the Total Investment of a Sino-Foreign Equity Joint Venture Enterprise, promulgated by SAMR on February 17, 1987 and taking effect on March 1, 1987, with respect to a sino-foreign equity joint venture, the registered capital shall be (i) no less than 7/10 of its total investment, if the total investment is US\$3 million or under US\$3 million; (ii) no less than 1/2 of its total investment, if the total investment is ranging from US\$3 million to US\$10 million (including US\$10 million), provided that the registered capital shall not be less than US\$2.1 million if the total investment is less than US\$4.2 million; (iii) no less than 2/5 of its total investment, if the total investment is ranging from US\$10 million to US\$30 million (including US\$30 million), provided that the registered capital shall not be less than US\$5 million if the total investment is less than US\$12.5 million; and (iv) no less than 1/3 of its total investment, if the total investment exceeds US\$30 million, provided that the registered capital shall not be less than US\$12 million if the total investment is less than US\$36 million.

On January 11, 2017, the People's Bank of China, or the PBOC promulgated the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, or the PBOC Notice No. 9. Pursuant to the PBOC Notice No. 9, within a transition period of one year from January 11, 2017, the foreign invested enterprises may adopt the currently valid foreign debt management mechanism, or Current Foreign Debt Mechanism, or the mechanism as provided in the PBOC Notice No. 9, or Notice No. 9 Foreign Debt Mechanism, at their own discretions. The PBOC Notice No. 9 provides that enterprises may conduct independent cross-border financing in Renminbi or foreign currencies as required. Pursuant to the PBOC Notice No. 9, the outstanding cross-border financing of an enterprise (the outstanding balance drawn, here and below) shall be calculated using a risk-weighted approach, or Risk-Weighted Approach, and shall not exceed the specified upper limit, namely: risk-weighted outstanding cross-border financing \leq the upper limit of risk-weighted outstanding cross-border financing. Risk-weighted outstanding cross-border financing = Σ outstanding amount of Renminbi and foreign currency denominated cross-border financing * maturity risk conversion factor * type risk conversion factor + Σ outstanding foreign currency denominated cross-border financing * exchange rate risk conversion factor. Maturity risk conversion factor shall be one (1) for medium and long-term cross-border financing with a term of more than one year and 1.5 for short-term cross-border financing with a term of no less than one (1) year. Type risk conversion factor shall be one (1) for on-balance-sheet financing and one (1) for off-balance-sheet financing (contingent liabilities) for the time being. Exchange rate risk conversion factor shall be 0.5. The PBOC Notice No. 9 further provides that the upper limit of risk-weighted outstanding cross-border financing for enterprises shall be calculated and adjustable based on the equation of upper limit of risk-weighted outstanding cross-border financing = the capital or the net assets \times the leverage rate of cross-border financing \times the macro-prudential adjustment parameter. For enterprises, the leverage rate of cross-border financing shall be 2 and the macro-prudential adjustment parameter shall be 1, which means that the upper limit of risk-weighted outstanding cross-border financing for an enterprise shall be 200% of its net assets. Enterprises shall file with the SAFE in its capital item information system after entering into the relevant cross-border financing contracts and prior to three (3) business days before drawing any money from the foreign debts. On March 11, 2020, the PBOC and the SAFE issued PBOC and SAFE Notice Concerning Adjustment to the Full Caliber Cross-border Finance Adjustment Parameter, pursuant to which the macro-prudential adjustment parameter has been increased from 1 to 1.25, which means that the upper limit of risk-weighted outstanding cross-border financing for an enterprise is increased to 250% of its net assets.

Based on the foregoing, if we provide funding to our wholly foreign owned subsidiaries through shareholder loans, the balance of such loans shall not exceed the Total Investment and Registered Capital Balance and we will need to register such loans with the SAFE or its local branches in the event that the Current Foreign Debt Mechanism applies, or the balance of such loans shall be subject to the Risk-Weighted Approach and the net asset limits and we will need to file the loans with the SAFE in its information system in the event that the Notice No. 9 Foreign Debt Mechanism applies. According to the PBOC Notice No. 9, after a transition period of one year from January 11, 2017, the PBOC and the SAFE will determine the cross-border financing administration mechanism for the foreign-invested enterprises after evaluating the overall implementation of the PBOC Notice No. 9. It is uncertain which mechanism will be adopted by the PBOC and the SAFE in the future and what statutory limits will be imposed on us when providing loans to our PRC subsidiaries.

- ***Offshore Investment by PRC Residents***

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Round-Trip Investment via Overseas Special Purpose Vehicles and its subsequent amendments, supplements or implementation rules, or SAFE Circular 75, issued on October 21, 2005, a PRC resident (whether a natural person or a legal person) shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle, or an SPV, with assets or equity interests in a PRC company, for the purpose of overseas equity financing. On July 4, 2014, SAFE issued the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Outbound Investment and Financing and Round-trip Investments via Special Purpose Vehicles, or the SAFE Circular 37, which superseded SAFE Circular 75. According to SAFE Circular 37, the PRC domestic resident shall apply for SAFE registration for overseas investment before paying capital to SPV by using his, her or its legal assets whether overseas or domestic. The SPV is defined as "offshore enterprise directly established or indirectly controlled by the domestic residents (including domestic institutions and individuals) with their legally owned assets and equity of the domestic enterprise, or legally owned offshore assets or equity, for the purpose of offshore investment and financing". In addition, in the event that the SPV undergoes changes of its basic information such as the individual shareholder, name, operation term, etc., or material events including increase or decrease in investment amount by domestic individual shareholder, equity transfer or swap, mergers, spin-off, etc., the domestic resident shall timely complete the change of foreign exchange registration formality for offshore investment.

According to the SAFE Circular 37, failure to make such registration or truthfully disclose actual controllers of the round-trip enterprises may subject PRC residents to fines of up to RMB300,000 in case of domestic institutions or RMB50,000 in case of domestic individuals. If the registered or beneficial shareholders of the offshore holding company who are PRC residents do not complete their registration with the local SAFE branches, the relevant PRC subsidiary may be prohibited from distributing their profits and proceeds from any reduction in capital, share transfer or liquidation to the offshore company, and the offshore company may be restricted in its ability to contribute additional capital to its PRC subsidiary. Moreover, failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for violating applicable foreign exchange restrictions.

Mr. Huazhi Hu, our founder, has completed initial registration under the SAFE Circular 37 with respect to his shareholding in our company through his wholly-owned company incorporated in the British Virgin Islands. An amendment to the registration is required if there are material changes to the registrant, such as any changes to the identity of the registrant, increases or decreases in investment amount, transfers or exchanges of shares and mergers. We cannot provide any assurance that all of our shareholders who are PRC residents will file all applicable registrations or amend previously filed registrations as required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures may subject the PRC resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to or obtain foreign exchange-dominated loans from our company.

- ***Dividend Distribution***

The principal laws and regulations regulating the distribution of dividends by foreign-invested enterprises in the PRC include the *PRC Company Law*, as amended in 2004, 2005, 2013, 2018 and 2023, the *Foreign Investment Law of PRC* promulgated in 2020 and the *Implementation Rules to the Foreign Investment Law* promulgated in 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises may pay dividends only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. A PRC company is required to set aside as statutory reserve funds of at least 10% of its after-tax profit, until the cumulative amount of such reserve funds reaches 50% of its registered capital unless laws regarding foreign investment provide otherwise. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

Taxation

- **Enterprise Income Tax**

On March 16, 2007, the SCNPC promulgated the Enterprise Income Tax Law of the PRC which was amended on February 24, 2017 and December 29, 2018. On December 6, 2007, the State Council enacted the *Regulations for the Implementation of the Enterprise Income Tax Law*, or collectively, the EIT Law. The EIT Law came into effect on January 1, 2008 and was amended on April 23, 2019 and December 6, 2024. Under the EIT Law, both resident enterprises and non-resident enterprises are subject to tax in the PRC. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but are actually or in effect controlled from within the PRC. Non-resident enterprises are defined as enterprises that are organized under the laws of foreign countries and whose actual management is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applied. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, enterprise income tax is set at the rate of 10% with respect to their income sourced from inside the PRC. According to the EIT Law and relevant regulations, subject to the approval of competent tax authorities, the income tax of an enterprise that has been determined to be a high and new technology enterprise shall be reduced to a preferential rate of 15%.

- **Value-added Tax**

The *Provisional Regulations of the PRC on Value-added Tax* was promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 and was subsequently amended from time to time, and the *Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax* (Revised in 2011) was promulgated by the Ministry of Finance, or the MOF, on December 25, 1993 and subsequently amended on December 15, 2008 and October 28, 2011, or collectively, VAT Law. According to the VAT Law and the Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sale of services, intangible assets, real property and the importation of goods within the territory of the PRC are taxpayers of VAT.

On November 19, 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax, or the Order 691. The VAT tax rates generally applicable are simplified as 17%, 11%, 6% and 0%, and the VAT tax rate applicable to the small-scale taxpayers is 3%. Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates promulgated on April 4, 2018 by the Ministry of Finance and the State Administration of Taxation, which became effective on May 1, 2018, where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10%, respectively. Pursuant to Announcement on Policies for Deepening the VAT Reform issued by the PRC Ministry of Finance, the PRC State Taxation Administration and the General Administration of Customs (“Announcement No. 39”) on March 20, 2019 and effective on April 1, 2019, the previous rate of 16% or 10% are adjusted to be 13% or 9%, respectively, for taxpayer’s general sale activities or imports.

- **Tax on Indirect Transfer**

On February 3, 2015, the SAT issued the *Circular on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-PRC Resident Enterprises*, or the SAT Circular 7. Pursuant to the SAT Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises, may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, features to be taken into consideration include, *inter alia*, whether the main value of the equity interest of the relevant offshore enterprise derives directly or indirectly from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consists of direct or indirect investment in China or if its income is mainly derived from China; and whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure. The SAT Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired on a public stock exchange. On October 17, 2017, the SAT issued the *Circular on Issues of Tax Withholding regarding Source of Non-PRC Resident Enterprise Income Tax*, or the SAT Circular 37, which further elaborates on the relevant implemental rules regarding the calculation, reporting and payment obligations of the withholding tax by the non-resident enterprises.

Employment and Social Welfare

- ***Labor Contract Law***

The *Labor Contract Law of the PRC*, or the Labor Contract Law, which was promulgated on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating rights and obligations of employer and employee relationships, including the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between employers and employees. Employers are prohibited from forcing employees to work in excess of certain time limit and employers shall pay employees for overtime work in accordance with national regulations. In addition, employee wages shall be no lower than the local minimum wages and must be paid to employees in a timely manner.

- ***Interim Provisions on Labor Dispatch***

Pursuant to the *Interim Provisions on Labor Dispatch* promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, dispatched workers are entitled to the same pay as the fulltime employees for the same nature of work. Employers are allowed to use dispatched workers for temporary, auxiliary or substitutive positions, and the number of dispatched workers must not exceed 10% of the total number of employees.

- ***Social Insurance and Housing Fund***

As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the *Decisions on the Establishment of a Unified Pension Insurance Program for Enterprise Employees of the State Council* issued on July 16, 1997, the *Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council* promulgated on December 14, 1998, the *Unemployment Insurance Measures* promulgated on January 22, 1999 and the *Social Insurance Law of the PRC* implemented on July 1, 2011 and amended on December 29, 2018, employers are required to provide their employees in the PRC with welfare benefits covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities. Any employer that fails to make social insurance contributions may be ordered to rectify the non-compliance and pay the required contributions within a prescribed time limit and be subject to a late fee. If the employer still fails to rectify the failure to make the relevant contributions within the grace period, it may be subject to a fine ranging from one (1) to three (3) times the amount overdue.

In accordance with the *Regulations on the Management of Housing Fund* which was promulgated by the State Council in 1999 and amended in 2002 and 2019, employers must register at the designated administrative centers and open bank accounts for depositing employees' housing funds. An employee and his/her employer are also required to pay and deposit certain percentage of the monthly average salary of such employee as housing funds in the preceding year in full and on time.

- ***Employee Stock Incentive Plan***

Pursuant to the Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company, or the SAFE Circular 7, which was issued by the SAFE on February 15, 2012, if PRC "domestic individuals" (both PRC residents and non-PRC residents who reside in China for a continuous period of not less than one year, excluding foreign diplomatic personnel and representatives of international organizations) participate in any stock incentive plan of an overseas listed company, a PRC domestic qualified agent, which could be the PRC subsidiary of such overseas listed company, shall, among others things, file, on behalf of such individual, an application with the SAFE to conduct the SAFE registration with respect to such stock incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with stock holding or stock option exercises. In addition, the SAFE Circular 37 also provides certain requirements and procedures of foreign exchange registration in relation to equity incentive plan of SPV before listing. In this regard, if a non-listed SPV grants equity incentives to its directors, supervisors, senior officers or other employees in its domestic subsidiaries, the relevant domestic individual residents may register with the SAFE before exercising their rights.

In addition, the SAT has issued certain circulars concerning employee stock options and restricted shares. Under these circulars, employees working in the PRC who exercise stock options or are granted restricted shares will be subject to PRC individual income tax. The PRC subsidiaries of an overseas listed company are required to file documents related to employee stock options and restricted shares with relevant tax authorities and to withhold individual income taxes of employees who exercise their stock option or purchase restricted shares. If the employees fail to pay or the PRC subsidiaries fail to withhold income tax in accordance with relevant laws and regulations, the PRC subsidiaries may face sanctions imposed by the tax authorities or other PRC governmental authorities.

- ***M&A Rules and Overseas Listing***

On August 8, 2006, six (6) PRC governmental and regulatory agencies, including the MOFCOM and the China Securities Regulatory Commission, or the CSRC, promulgated the *Rules on Acquisition of Domestic Enterprises by Foreign Investors*, or the M&A Rules that became effective on September 8, 2006 and was revised on June 22, 2009, governing the mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or individuals, or PRC Citizens, intends to acquire equity interests or assets of any other PRC domestic company affiliated with the PRC Citizens, such acquisition must be submitted to the MOFCOM for approval. The M&A Rules also require that an offshore SPV, or an SPV formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to overseas listing and trading of such SPV's securities on an overseas stock exchange.

On February 17, 2023, the CSRC issued rules and regulations concerning the filing management of overseas listing, which came into effect on March 31, 2023. The rules and regulations issued include the Provisional Measures for the Administration of Overseas Issuance and Listing of Securities by Domestic Enterprises, or the New Filing Rules, and five supporting guidelines. The New Filing Rules dictate that enterprises that have been listed overseas prior to March 31, 2023 constitute "Existing Issuers." Existing Issuers are required to complete filing procedure with the CSRC before they conduct refinancing activities or issue securities such as convertible bonds, exchangeable bonds and preference shares, unless such securities are issued as equity incentive awards or in connection with conversion of public reserve funds into increased company capital, share dividends or share split. Given that the New Filing Rules were recently promulgated, there remains substantial uncertainties as to their interpretation, application, and enforcement and how they will affect an Existing Issuer's operations and future financing.

Environmental Protection and Work Safety

- ***Environmental Protection***

Pursuant to the *Environmental Protection Law of the PRC* promulgated by the SCNPC, on December 26, 1989, amended on April 24, 2014 and effective on January 1, 2015, any entity which discharges or will discharge pollutants during course of operations or other activities must implement effective environmental protection safeguards and procedures to control and properly treat waste gas, waste water, waste residue, dust, malodorous gases, radioactive substances, noise vibrations, electromagnetic radiation and other hazards produced during such activities.

Environmental protection authorities impose various administrative penalties on persons or enterprises in violation of the *Environmental Protection Law*. Such penalties include warnings, fines, orders to rectify within the prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down enterprises. Any person or entity that pollutes the environment resulting in damage could also be held liable under the Civil Code of the PRC. In addition, environmental organizations may also bring lawsuits against any entity that discharges pollutants detrimental to the public welfare.

- ***Work Safety***

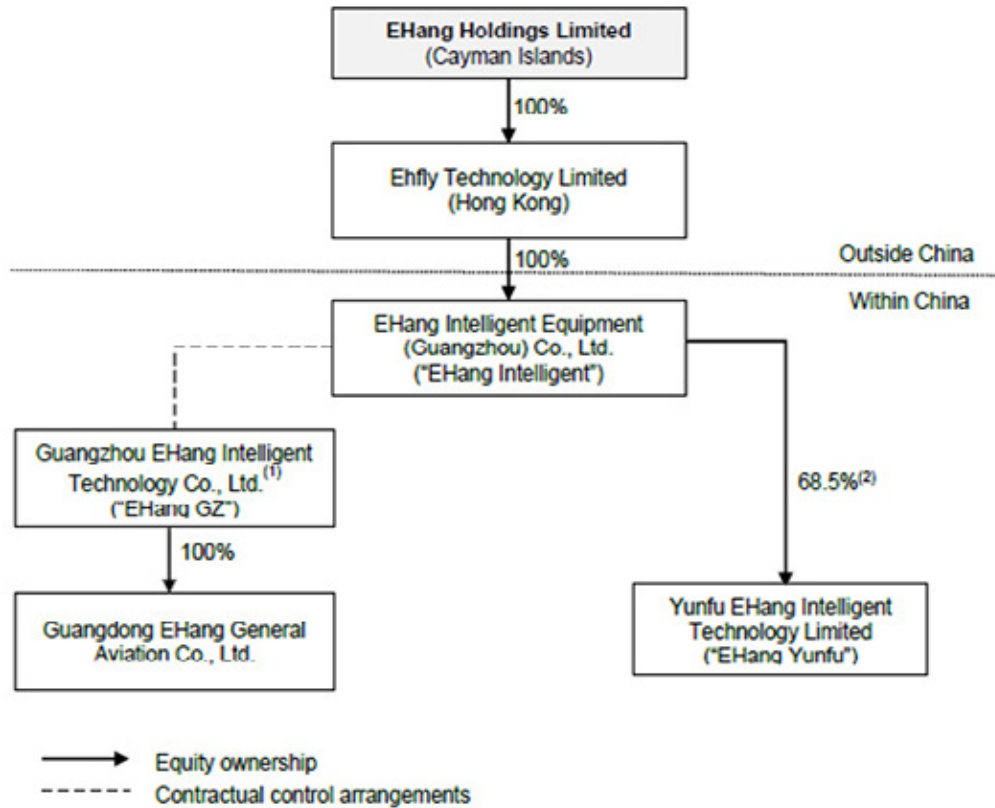
Under relevant construction safety laws and regulations, including the *Work Safety Law of the PRC* which was promulgated by the SCNPC on June 29, 2002, amended on August 27, 2009, August 31, 2014, and June 10, 2021 and effective as of September 1, 2021, production and operating business entities must establish objectives and measures for work safety and improve the working environment and conditions for workers in a planned and systematic way. A work safety protection scheme must also be set up to implement the work safety job responsibility system. In addition, production and operating business entities must arrange work safety training and provide the employees with protective equipment that meets the national standards or industrial standards. Automobile and components manufacturers are subject to the aforementioned environment protection and work safety requirements.

- ***Fire Control***

Pursuant to the *Fire Safety Law of the PRC* promulgated by the SCNPC on April 29, 1998, amended on October 28, 2008, April 23, 2019, and April 29, 2021 and which became effective on April 29, 2021 and the *Interim Provisions for Management of Examination and Acceptance of Fire Protection Design of Construction Projects* promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on April 1, 2020, amended on August 21, 2023, and became effective on October 30, 2023, the construction entity of a large-scale crowded venue (including the construction of a manufacturing factory that is over 2,500 square meters) and other special construction projects must apply for fire prevention design review with fire control authorities, and complete fire assessment inspection and acceptance procedures after the construction project is completed. The construction entity of other construction projects must provide fire protection design and technical materials meeting the construction needs when it applies for construction work permits, and complete the filing for fire safety completion inspection and acceptance procedures within five business days after passing the construction completion inspection and acceptance. If the construction entity fails to pass the fire safety inspection before such venue is put into use, or fails to conform to the fire safety requirements after such inspection, it shall be subject to (i) orders to suspend the construction of projects, use of such projects or operation of relevant business; and (ii) a fine ranging between RMB30,000 and RMB300,000.

C. Organizational Structure

The following diagram illustrates our corporate structure as of the date of this annual report.



Notes:

- (1) Messrs. Shuai Feng and Weixian Xia are senior employees of our company and they hold 95.0% and 5.0% equity interests in the VIE, respectively.
- (2) The remaining 31.5% equity interests in Yunfu EHang Intelligent Technology Limited are held by our joint venture partners.

Contractual Arrangements with the VIE and its Shareholders

The following is a summary of the currently effective contractual arrangements by and among the WFOE, the VIE and the VIE's shareholders.

Contractual Agreements that Provide Us with Power to Direct the Activities of the VIE

Shareholders Voting Proxy Agreement. Pursuant to the shareholders voting proxy agreement dated October 21, 2020 and the power of attorney granted thereunder, each of the VIE's shareholders irrevocably authorizes the WFOE to act as his attorney-in-fact to exercise all of his rights as a shareholder of the VIE, including, but not limited to, the right to (i) attend shareholders' meetings; (ii) vote on any resolution that requires a shareholder vote pursuant to applicable laws and the articles of association of the VIE, such as the sale and transfer of all or part of the equity interests owned by such shareholder; and (iii) designate and appoint legal representative, directors, supervisors, general manager and other senior management. The shareholders voting proxy agreement will remain effective for 20 years and can be extended at the WFOE's sole discretion. The power of attorney granted under the shareholders voting proxy agreement will remain effective continuously from the date of execution, and the WFOE is entitled to assign its rights relating to the equity interests to any other person or entity at its own discretion.

Loan Agreement. Pursuant to the special agreement on the capital increase of the VIE dated February 22, 2019, or the loan agreement, among the WFOE, and the shareholders of the VIE, which was amended on September 7, 2020 and October 21, 2020, respectively, the WFOE has granted interest-free loans with an aggregate amount of RMB60 million to the shareholders of the VIE for the sole purpose of providing funds necessary for the capital increase to the VIE. The loans shall be repaid by the shareholders of the VIE through a transfer of their equity interests in the VIE to the WFOE, in proportion to the amount of the loans to be repaid. As of the date of this annual report, the full amount of these loans remains outstanding.

Share Pledge Agreements. Pursuant to the share pledge agreements, dated October 21, 2020, between the WFOE and each of the shareholders of the VIE, the shareholders of the VIE have pledged their entire equity interests in the VIE to the WFOE, to guarantee the performance of their obligations under the exclusive consulting and services agreement, the share pledge agreement and the exclusive option agreement described elsewhere in this annual report. In the event of a breach by any of the VIE's shareholders of his contractual obligations under the relevant agreements, the WFOE, as pledgee, will have the right to acquire all or part of the pledged equity interests in the VIE. The shareholders of the VIE also undertake that, without the prior written consent of the WFOE, they will not create any encumbrance on or otherwise transfer or dispose of their respective equity interests in the VIE. The share pledge agreements will remain effective until all the contractual obligations under the relevant agreement have been satisfied in full. As of the date of this annual report, we have registered the share pledges with the relevant authorities in accordance with PRC regulations.

Agreement that Allows Us to Receive Economic Benefits from the VIE

Exclusive Consulting and Services Agreements. Pursuant to the exclusive technical consulting and service agreement and the exclusive services agreement, each dated January 29, 2016, and subsequently amended on November 30, 2018, or the exclusive consulting and services agreements, between the WFOE and the VIE, the WFOE has the exclusive right to provide the VIE and the VIE's subsidiaries with consulting and services, including but not limited to those relating to the development, manufacturing and sales of intelligent aerial vehicles. Without the WFOE's prior written consent, the VIE cannot, directly or indirectly, accept any consulting services subject to this agreement from any third party. The VIE agrees to pay the WFOE a service fee equal to 100% of the consolidated net profits of the VIE after the VIE turns profitable on a cumulative basis and after netting off certain expenses. Our WFOE has the sole discretion in determining the service fee charged to the VIE under this agreement. Our WFOE has the exclusive ownership of all the intellectual property rights created as a result of the performance of the exclusive consulting and services agreement to the extent permitted by applicable PRC laws. The exclusive consulting and services agreement will remain effective for ten years, unless otherwise terminated by the WFOE with 30 days' prior notice at any time, or by the VIE if the WFOE is grossly negligent.

Agreement that Provides Us with the Option to Purchase the Equity Interests in the VIE

Exclusive Option Agreement. Pursuant to the exclusive option agreement, dated October 21, 2020, among the WFOE, the VIE and the shareholders of the VIE, each of the shareholders of the VIE has irrevocably granted the WFOE an exclusive option to purchase all or part of his equity interests in the VIE. Our WFOE or its designated person may exercise such options at the lowest price permitted under applicable PRC laws. Any proceeds received by the shareholders of the VIE from the exercise of the options shall be remitted to the WFOE or its designated party, to the extent permitted under applicable PRC laws. The shareholders of the VIE undertake that, without the WFOE's prior written consent, they will not, among other things, (i) create any pledge or encumbrance on their equity interests in the VIE, and (ii) transfer or otherwise dispose of their equity interests in the VIE. The exclusive option agreements will remain effective until all equity interests in the VIE have been transferred to the WFOE or our designated person. The WFOE may terminate the agreement at its sole discretion.

In the opinion of AllBright Law Offices, our PRC legal counsel:

- the ownership structures of the WFOE, the VIE and the VIE's subsidiaries are in compliance with applicable PRC laws and regulations; and
- such contractual arrangements constitute valid, legal and binding obligations enforceable against each party of such agreements in accordance with the terms of each agreement from their respective effective dates to the date of this annual report, and will not result in any violation of PRC laws or regulations currently in effect.

However, our PRC legal counsel has also advised us that there are substantial uncertainties regarding the interpretation and application of current and future PRC laws, regulations and rules; accordingly, the PRC regulatory authorities may take a view that is contrary to the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. If we or the VIE is found to be in violation of any existing or future PRC laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure—If the PRC government finds that the contractual arrangements between the WFOE, the VIE and the VIE's shareholders do not comply with PRC regulations relating to the relevant industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations".

D. Property, plants and equipment

Our headquarters is located in Guangzhou, China, where we lease and occupy our office space with an aggregate floor area of approximately 8,350 square meters from unrelated third parties under operating lease agreements. Our production facility in Yunfu city, China has a total planned gross floor area of 48,000 square meters. A substantial majority of our employees are based at our headquarters in Guangzhou. As of the date of this annual report, we also own an office building in Guangzhou of approximately 8,551 square meters, which is used for our research and development activities.

We believe that our existing facilities are generally adequate to meet our current needs, but we expect to seek additional space as needed to accommodate our future growth.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review Prospects

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties about our business and operations. Our actual results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those we describe under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.

A. Operating Results

Overview

We are an urban air mobility technology platform company. We are pioneering the future of transportation through our proprietary developed pilotless eVTOL aircraft and other UAVs, related commercial solutions and services.

We, the VIE and the VIE’s subsidiaries design, develop, manufacture, sell and operate UAVs and their supporting systems and infrastructure for a broad range of industries and applications, including passenger transportation, logistics, smart city management and aerial media solutions. We aim to make it safe and convenient for both passengers and goods to take to the air.

We delivered our first passenger-carrying pilotless eVTOL aircraft to a customer in March 2018. Since then, we and the VIE had delivered 453 units of the EH216 series products as of December 31, 2024. As we continue to refine and commercialize our products and air mobility solutions, we believe we will be able to capture addressable markets across multiple industries and develop UAM commercial applications in new industries.

Our revenues increased by 165.0% from RMB44.3 million in 2022 to RMB117.4 million in 2023, and then increased significantly to RMB456.2 million (US\$62.5 million) in 2024. Our net loss decreased by 8.2% from RMB329.3 million in 2022 to RMB302.3 million in 2023, and then decreased by 23.9% to RMB230.0 million (US\$31.5 million) in 2024. In 2024, revenues generated by air mobility solutions and others were RMB443.3 million (US\$60.7 million) and RMB12.9 million (US\$1.8 million), representing 97.2% and 2.8% of our total revenues, respectively.

Key Components of Results of Operations

Revenues

We generate revenues from air mobility solutions and others. The following table sets forth a breakdown of our total revenues in absolute amounts and percentages of our total revenues for the periods presented:

	For the Year Ended December 31,						
	2022		2023		2024		
	RMB	%	RMB	%	RMB	US\$	
	(in thousands, except for percentages)						
Revenues:							
Air mobility solutions	40,387	91.2	104,729	89.2	443,320	60,735	97.2
Others	3,930	8.8	12,697	10.8	12,832	1,758	2.8
Total	44,317	100.0	117,426	100.0	456,152	62,493	100.0

Air mobility solutions. Revenues from air mobility solutions consist of revenues from (i) sales of the EH216 series products and (ii) provision of exhibition services. Revenues from sales of the EH216 series products are based on firm customer orders with fixed terms and conditions, including pricing, net of discounts, if any. We rely on customers' acknowledgements of receipt and goods delivery notes for domestic shipments, and proof of shipments for overseas customers, to determine when our performance obligations are satisfied. When goods are shipped to domestic customers who acknowledge the receipt of goods, or shipped to overseas customers with "FOB Shipping Point," control of the goods is transferred to the customer if there are no remaining performance obligations. We recognize the revenue once the control has passed to the customer. The transaction price represents the amount of consideration we expect to receive under the arrangement. We are required to estimate any variable consideration and to factor that estimation into the determination of the transaction price. Our revenues from air mobility solutions were mainly derived from sales of the EH216 series products to customers mainly operated on a limited trial basis in tourism locations in China for testing, training, demonstration and trial operation purposes. In 2023, we obtained the type certificate and standard airworthiness certificate for EH216-S from the CAAC, demonstrating that the EH216-S is qualified for conducting passenger-carrying commercial operations. We began deliveries of certificated EH216-S aircraft to customers in the fourth quarter of 2023.

Others. Revenues from others consist of revenues from smart city management solutions, aerial media solutions and others.

- *Smart city management solutions.* Smart city management solutions mainly include (i) design and development of command-and-control systems and related facilities, and (ii) sale of UAVs and other related products. For design and development of command-and-control systems and related facilities, we recognize revenues using a percentage of completion method. We typically enter into project contracts with customers, according to which they pay project fees based on the agreed schedule. As we provide smart city management solutions on a project basis with high individual transaction values, revenues from smart city management solutions may be more concentrated in certain years or periods, and therefore are subject to greater period-to-period fluctuations.

- *Aerial media solutions.* We recognize revenues from aerial media solutions when the aerial media performance is fulfilled by us or customers purchase aerial media solution packages from us. The service fee for each performance is determined mainly by the length of performance, complexity, number of UAVs involved, manpower and regulatory requirements. The purchase price for aerial media solution packages consists of small-sized aerial media UAVs or component packages, related software, maintenance and/or training services, etc.

- *Others.* We also generate other revenues mainly from stand-alone sales of consumer drones and their components and spare parts. We recognize revenues from others when the consumer drones are delivered and the control of the drones has been transferred to the customers. We started to phase out our consumer drone business in late 2016.

As we have obtained the type certificate and standard airworthiness certificate for EH216-S from the CAAC in 2023 and further obtained the production certificate from the CAAC in April 2024, we expect that our revenues will increase in China and we will continue to fulfill existing orders and pre-orders for the EH216 series products, secure new orders for our air mobility solutions, provide air mobility operational services, offer smart city management and aerial media solutions and expand our commercial solutions and sales network. We expect that the increase in revenues generated from air mobility solutions will be the main increase in both domestic and international markets.

Cost of revenues

Cost of revenues consists primarily of aerial vehicles material and manufacturing costs, construction costs of smart city management solutions, depreciation, rental fees, payroll and related costs of operations.

We expect that our cost of revenues will increase in the foreseeable future as we increase our product sales volume and expand our commercial solutions business.

Operating expenses

Our total operating expenses consist of sales and marketing expenses, general and administrative expenses and research and development expenses. The following table sets forth the components of our total operating expenses by amounts and percentages of operating expenses for the periods presented:

	For the Year Ended December 31,						
	2022		2023		2024		
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Sales and marketing expenses	53,116	15.7	60,389	16.0	131,027	17,951	23.2
General and administrative expenses	151,065	44.5	150,092	39.7	233,398	31,975	41.4
Research and development expenses	135,082	39.8	167,315	44.3	199,465	27,327	35.4
Total operating expenses	339,263	100.0	377,796	100.0	563,890	77,253	100.0

Sales and marketing expenses. Our sales and marketing expenses primarily consist of advertising and promotion expenses, payroll and related expenses for personnel in sales and marketing.

General and administrative expenses. Our general and administrative expenses mainly consist of payroll and related costs for employees in general corporate functions, professional fees, allowance for doubtful account expenses or expected credit losses provision, and other general corporate expenses, as well as expenses associated with the use by these functions of facilities and equipment, such as depreciation and rental expenses.

Research and development expenses. Our research and development expenses mainly consist of payroll and benefits for our research and development personnel, as well as expenses associated with our research and development activities.

Other operating income

Other operating income mainly consists of financial subsidies that we received from provincial and local governments for operating our business in their jurisdictions in compliance with certain promoted policies.

Taxation

Cayman Islands

We are an exempted company incorporated in the Cayman Islands. The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution, brought within the jurisdiction of the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our wholly-owned subsidiary, Ehfly Technology Limited, or Ehfly Technology, incorporated in Hong Kong, is subject to Hong Kong profit tax on its profits arising from its business operations carried on in Hong Kong. Hong Kong profits tax for a corporation from the year of assessment 2018/2019 onwards is generally 8.25% on assessable profits up to HK\$2.0 million; and 16.5% on any part of assessable profits over HK\$2.0 million. Under the Hong Kong Inland Revenue Ordinance, profits that we derive from sources outside of Hong Kong are not generally chargeable to Hong Kong profits tax. As such, Ehfly Technology is exempted from the Hong Kong income tax on its foreign-derived income. In addition, payments of dividends from Ehfly Technology to our company are not subject to any withholding tax in Hong Kong. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during 2024.

PRC

Under the Enterprise Income Tax Law, or the EIT Law, our PRC subsidiaries, the VIE and the VIE's subsidiaries are subject to a statutory income tax rate of 25%. The WFOE and the VIE have each been qualified as a high and new technology enterprise, or HNTE, and are eligible for a 15% preferential tax rate, from 2020 to 2025, and from 2019 to 2024, respectively.

The EIT law also imposes a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside China, if such immediate holding company is considered as a non-resident enterprise without any establishment or place within China or if the received dividends have no connection with the establishment or place of such immediate holding company within China, unless such immediate holding company's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. According to the Arrangement Between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, dividends paid by an FIE in China to its immediate holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5%, if the immediate holding company owns at least 25% of the equity interest of the FIE and satisfies all other requirements under the tax arrangement and receives approval from the relevant tax authority. We did not record any dividend withholding tax, as our PRC entities have no retained earnings in the periods presented. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We may not be able to obtain certain benefits under the relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary."

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 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, property, etc., of a non-PRC company is located." Based on a review of surrounding facts and circumstances, we do not believe that it is likely that our operations outside the PRC should be considered a resident enterprise for PRC tax purposes. If our holding company in the Cayman Islands or any of our subsidiaries outside China were deemed to be a "resident enterprise" under the EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

Under the EIT Law, research and development expenses that have not formed intangible assets are included in the profit and loss account for the current year. Besides deducting the actual amount of research and development expenses incurred, according to the Notice on Raising the Ratio of Deduction of Research and Development Expenses, effective on September 20, 2018, a qualifying enterprise is allowed an additional deduction of the amount in calculating its taxable income for the relevant year, including a 75% deduction for the years ended December 31, 2020, as well as a 100% deduction for the year ended December 31, 2021 and 2022. For research and development expenses that have formed intangible assets, the tax amortization is based on 175% or 200% of the costs of the intangible assets in the relevant year.

Dividends, interests, rent or royalties payable by our PRC subsidiaries, to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor's disposition of assets (after deducting the net value of such assets) shall be subject to 10% withholding tax, unless the respective non-PRC resident enterprise's jurisdiction of incorporation has a tax treaty or arrangements with PRC that provides for a reduced withholding tax rate or an exemption from withholding tax.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods presented, both in absolute amounts and as percentages of our total revenues, for the periods presented. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The results of operations in any particular period are not necessarily indicative of our future trends.

	For the Year Ended December 31,					
	2022		2023		2024	
	RMB	%	RMB	%	RMB	US\$
	(in thousands, except for percentages)					
Total revenues	44,317	100.0	117,426	100.0	456,152	100.0
Cost of revenues	(15,098)	(34.1)	(42,115)	(35.9)	(176,206)	(38.6)
Gross profit	29,219	65.9	75,311	64.1	279,946	61.4
Operating expenses:						
Sales and marketing expenses ⁽¹⁾	(53,116)	(119.9)	(60,389)	(51.4)	(131,027)	(28.7)
General and administrative expenses ⁽¹⁾	(151,065)	(340.9)	(150,092)	(127.8)	(233,398)	(51.2)
Research and development expenses ⁽¹⁾	(135,082)	(304.8)	(167,315)	(142.5)	(199,465)	(43.7)
Total operating expenses	(339,263)	(765.6)	(377,796)	(321.7)	(563,890)	(123.6)
Other operating income	6,094	13.8	6,233	5.3	29,869	6.5
Operating loss	(303,950)	(685.9)	(296,252)	(252.3)	(254,075)	(55.7)
Other (expenses) income:						
Interest and investment income	4,669	10.5	8,484	7.2	30,599	6.7
Interest expenses	(2,145)	(4.8)	(2,930)	(2.5)	(3,375)	(0.7)
Amortization of debt discounts	(1,674)	(3.8)	(12,023)	(10.2)	—	—
Foreign currency exchange (losses) gains, net	(1,488)	(3.3)	394	0.3	(1,188)	(0.3)
Other non-operating income	1,944	4.4	1,966	1.7	4,670	1.0
Other non-operating expenses	(26,804)	(60.5)	(214)	(0.2)	(1,924)	(0.4)
Total other (expenses) income	(25,498)	(57.5)	(4,323)	(3.7)	28,782	6.3
Loss before income tax and (loss) from equity method investment	(329,448)	(743.4)	(300,575)	(256.0)	(225,293)	(49.4)
Income tax expenses	(79)	(0.2)	(206)	(0.2)	(386)	(0.1)
Loss before (loss) from equity method investment	(329,527)	(743.6)	(300,781)	(256.1)	(225,679)	(49.5)
Income (loss) from equity method investment	196	0.5	(1,560)	(1.3)	(4,353)	(1.0)
Net loss	(329,331)	(743.1)	(302,341)	(257.5)	(230,032)	(50.4)

Note:

- (1) Share-based compensation expense was allocated in operating expenses as follows:

	For the Year Ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
	(in thousands, except share and share related data)			
Sales and marketing expenses	22,125	18,958	65,597	8,987
General and administrative expenses	38,452	79,327	134,984	18,493
Research and development expenses	36,321	53,200	72,543	9,938
Total	96,898	151,485	273,124	37,418

Year ended December 31, 2024 compared with year ended December 31, 2023

Revenues

Our total revenues increased significantly from RMB117.4 million in 2023 to RMB456.2 million (US\$62.5 million) in 2024, primarily due to the increase in the sales volume of EH216 series products.

Revenues from air mobility solutions increased significantly from RMB104.7 million in 2023 to RMB443.3 million (US\$60.7 million) in 2024. We sold 216 units of the EH216 series products in 2024, compared with 52 units in 2023.

Revenues from others remained stable at RMB12.9 million (US\$1.8 million) in 2024, as compared to RMB12.7 million in 2023.

Cost of revenues

Our cost of revenues increased significantly from RMB42.1 million in 2023 to RMB176.2 million (US\$24.1 million) in 2024, which was in line with the increase in the sales volume of EH216 series products.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased significantly from RMB75.3 million in 2023 to RMB279.9 million (US\$38.4 million) in 2024. However, our gross profit margin decreased from 64.1% in 2023 to 61.4% in 2024 primarily due to changes in revenue mix and increased cost per unit of the airworthiness certified EH216-S product.

Operating expenses

Our operating expenses increased by 49.3% from RMB377.8 million in 2023 to RMB563.9 million (US\$77.3 million) in 2024.

Sales and marketing expenses. Sales and marketing expenses increased significantly from RMB60.4 million in 2023 to RMB131.0 million (US\$18.0 million) in 2024, primarily due to increased sales-related compensation and associated share-based compensation expenses due to new grant and modification of share-based awards, as well as increased expansion of sales channels.

General and administrative expenses. General and administrative expenses increased from RMB150.1 million in 2023 to RMB233.4 million (US\$32.0 million) in 2024, primarily due to headcount expansion, increased employee compensation and related share-based compensation expenses resulting from new grants of share-based awards, and increased professional fees due to more professional services acquired from third parties for operational needs.

Research and development expenses. Research and development expenses increased from RMB167.3 million in 2023 to RMB199.5 million (US\$27.3 million) in 2024, primarily due to incremental expenditures on different models of eVTOL aircraft, headcount expansion, increased employee compensation and related share-based compensation expenses due to new grants of share-based awards.

Other operating income

Other operating income increased significantly from RMB6.2 million in 2023 to RMB29.9 million (US\$4.1 million) in 2024, primarily due to the increase of government subsidies.

Interest and investment income

We recorded interest and investment income of RMB30.6 million (US\$4.2 million) in 2024 and RMB8.5 million in 2023, both of which consisted primarily of interest earned from our cash and cash equivalents, short-term deposits, restricted short-term deposits and short-term investments.

Interest expenses

We recorded interest expenses of RMB3.4 million (US\$0.5 million) in 2024 and RMB2.9 million in 2023, both of which were primarily related to bank loans and loans from third parties.

Amortization of debt discounts

We recognized amortization of debt discounts of RMB12.0 million in 2023, which were related to the private placement transaction completed in 2023. There were no such debt discounts in 2024.

Other non-operating income

Other non-operating income was RMB4.7 million (US\$0.6 million) in 2024 and RMB2.0 million in 2023.

Other non-operating expenses

Other non-operating expenses was RMB1.9 million (US\$0.3 million) in 2024 and RMB0.2 million in 2023.

Income tax expenses

Our income tax expenses increased from RMB0.2 million in 2023 to RMB0.4 million (US\$0.1 million) in 2024. We did not have significant income tax expenses because most of our subsidiaries and consolidated affiliated entities were loss making in 2023 and 2024.

Net loss

As a result of the foregoing, our net loss decreased by 23.9% from RMB302.3 million in 2023 to RMB230.0 million (US\$31.5 million) in 2024.

Year ended December 31, 2023 compared with year ended December 31, 2022

Revenues

Our total revenues increased by 165.0% from RMB44.3 million in 2022 to RMB117.4 million in 2023, primarily due to the increase in the sales volume of EH216 series products.

Revenues from air mobility solutions increased by 159.3% from RMB40.4 million in 2022 to RMB104.7 million in 2023. We sold 52 units of the EH216 series products in 2023, compared with 21 units in 2022.

Revenues from smart city management solutions decreased by 39.1% from RMB2.1 million in 2022 to RMB1.3 million in 2023. Since the smart city management solutions are on a project basis with different individual transaction values depending on the project nature, project size, etc., revenues from smart city management solutions may be more concentrated in certain years or periods, and therefore are subject to greater period-to-period fluctuations.

Revenues from aerial media solutions increased by 727.3% from RMB1.3 million in 2022 to RMB11.1 million in 2023, primarily due to the gradual recovery from the COVID-19 pandemic.

Cost of revenues

Our cost of revenues increased by 178.9% from RMB15.1 million in 2022 to RMB42.1 million in 2023, which was in line with the increase of total revenues as we sold more EH216 series products in 2023.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 157.7% from RMB29.2 million in 2022 to RMB75.3 million in 2023. However, our gross profit margin slightly decreased from 65.9% in 2022 to 64.1% in 2023, mainly due to changes in revenue mix.

Operating expenses

Our operating expenses increased by 11.4% from RMB339.3 million in 2022 to RMB377.8 million in 2023.

Sales and marketing expenses. Sales and marketing expenses increased by 13.7% from RMB53.1 million in 2022 to RMB60.4 million in 2023, primarily due to the expansion of sales channels, as well as increased marketing and promotional activities to expand brand awareness and higher employee compensation, and partially offset by lower share-based compensation expenses.

General and administrative expenses. General and administrative expenses decreased by 0.6% from RMB151.1 million in 2022 to RMB150.1 million in 2023.

Research and development expenses. Research and development expenses increased by 23.9% from RMB135.1 million in 2022 to RMB167.3 million in 2023. The increase was mainly due to higher share-based compensation expenses for new grants of share-based awards and salaries and benefits costs, as well as continuous expenditures on the compliance tests related to the type certificate of EH216-S.

Other operating income

Other operating income remained relatively stable at RMB6.1 million in 2022 and RMB6.2 million in 2023.

Interest and investment income

We recorded interest and investment income of RMB8.5 million in 2023 and RMB4.7 million in 2022, both of which consisted primarily of interest earned from our cash and cash equivalents, short-term deposits, restricted short-term deposits and short-term investments.

Interest expenses

We recorded interest expenses of RMB2.9 million in 2023 and RMB2.1 million in 2022, both of which were primarily related to bank loans and loans from third parties.

Amortization of debt discounts

We recognized amortization of debt discounts of RMB12.0 million in 2023 and RMB1.7 million in 2022, both of which were related to the private placement transaction.

Other non-operating income

Other non-operating income was RMB2.0 million in 2023 and RMB1.9 million in 2022.

Other non-operating expenses

Other non-operating expenses decreased from RMB26.8 million in 2022 to RMB0.2 million in 2023. Other non-operating expenses in 2022 were mainly attributable to the estimated provision of US\$3.375 million for an employment dispute. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

Income tax expenses

Our income tax expenses increased from RMB79 thousand in 2022 to RMB0.2 million in 2023. We did not have significant income tax expenses because most of our subsidiaries and consolidated affiliated entities were loss making in 2022 and 2023.

Net loss

As a result of the foregoing, our net loss decreased by 8.2% from RMB329.3 million in 2022 to RMB302.3 million in 2023.

B. Liquidity and Capital Resources

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities during the normal course of operations. We have experienced recurring losses from operations since inception. As of December 31, 2023 and 2024, we had an accumulated deficit of RMB1,754.5 million and RMB1,984.9 million (US\$271.9 million). For the years ended December 31, 2022, 2023 and 2024, we incurred net loss of RMB329.3 million, RMB302.3 million and RMB230.0 million (US\$31.5 million), respectively. We had net cash used in operating activities of RMB173.5 million and RMB88.4 million for the years ended December 31, 2022 and 2023, respectively, and net cash generated from operating activities of RMB158.0 million (US\$21.6 million) for the year ended December 31, 2024. In November 2024, we adopted a share repurchase program, under which we are authorized to repurchase through one or more transactions up to US\$30 million worth of our ADSs representing our Class A ordinary shares over the next 12 months.

As of December 31, 2024, our cash and cash equivalents, short-term investments and restricted short-term deposits were RMB610.9 million (US\$83.7 million), RMB513.7 million (US\$70.4 million) and RMB30.3 million (US\$4.2 million), respectively. Our ability to continue as a going concern is largely dependent on successful execution of our business plan to scale up commercial sales of EH216-S and our ability to raise additional funds when needed. Our primary sources of liquidity have been proceeds from issuance of equity securities offerings, including private placements, as well as customer advances, short-term and long-term bank loans. For example, we had raised a total of US\$95.6 million from the sale and issuance of our Class A ordinary shares in private placements as of the date of this annual report, including US\$40 million in 2021, US\$33 million in 2023, and US\$22.6 million in 2024. In addition, we raised a total of US\$76.2 million through our ATM Program in 2024. As of December 31, 2024, we had RMB1,154.9 million (US\$158.2 million) in cash and cash equivalents, short-term investments and restricted short-term deposits, of which 13.2% were held in Renminbi and the remainder was held in U.S. dollars and other currencies, and of which 39.9% were held in the PRC. Our cash and cash equivalents consist primarily of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less.

Following the milestone achievement in obtaining the world’s first passenger-carrying unmanned aerial vehicle system certification for EH216-S, the Company’s management is implementing business plans to scale up the commercial sales of EH216-S through building a replicable and promotable business model to further expand the Company’s partnership network and enrich the commercial scenarios of EH216-S.

We believe that our balances of cash and cash equivalents, short-term investments and restricted short-term deposits as of December 31, 2024 will be sufficient to meet our sustainable operations and material cash requirements for at least the next 12 months after the date of this annual report. However, we may need additional cash resources in the future if we experience changes in business conditions or other developments, or if we pursue opportunities for investment, acquisition, capital expenditure or similar actions. If we determine that our cash requirements exceed the amount of cash we have on hand, we may seek to issue equity or equity linked securities or obtain debt financing. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. In utilizing the proceeds, we received from our securities offerings including our initial public offering and private placements, we may make additional capital contributions to our PRC subsidiaries, establish new PRC subsidiaries and make capital contributions to these new PRC subsidiaries, make loans to our PRC subsidiaries, or acquire offshore entities with operations in China in offshore transactions. However, most of these uses are subject to PRC regulations. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our offshore offerings to make loans to or make additional capital contributions to our PRC subsidiaries, the VIE and the VIE’s subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business,” and “Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds—Use of Proceeds.”

A majority of our revenues have been, and we expect they are likely to continue to be, in the form of Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Our PRC subsidiaries are required to set aside at least 10% of their after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Historically, our PRC subsidiaries have not paid dividends to us, and it will not be able to pay dividends until it generates accumulated profits. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE, its local branches and certain local banks.

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries only through loans or capital contributions, subject to the approval of government authorities and limits on the amount of capital contributions and loans. This may delay us from using the proceeds from our securities offerings to make loans or capital contributions to our PRC subsidiaries. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our offshore offerings to make loans to or make additional capital contributions to our PRC subsidiaries, the VIE and the VIE's subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business."

The following table sets forth a summary of our cash flows for the periods presented:

	For the Year Ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash (used in) generated from operating activities	(173,458)	(88,410)	157,959	21,639
Net cash provided by (used in) investing activities	56,400	(128,692)	(482,508)	(66,103)
Net cash provided by financing activities	106,740	195,480	701,357	96,085
Effect of exchange rate changes on cash, cash equivalents and restricted cash	12,605	562	5,819	797
Net increase (decrease) in cash, cash equivalents and restricted cash	2,287	(21,060)	382,627	52,418
Cash, cash equivalents and restricted cash at the beginning of the year	247,023	249,310	228,250	31,272
Cash and cash equivalents at the end of the year	249,310	228,250	610,877	83,690

Operating Activities

Net cash generated from operating activities in 2024 was RMB158.0 million (US\$21.6 million). This amount was primarily attributable to net loss of RMB230.0 million (US\$31.5 million), adjusted to add back certain non-cash expenses, principally share-based compensation of RMB273.1 million (US\$37.4 million), current expected credit losses of RMB12.8 million (US\$1.8 million), depreciation of property and equipment of RMB12.8 million (US\$1.8 million) and amortization of right-of-use assets of RMB6.1 million (US\$0.8 million), and further adjusted upwards due to changes in operating assets and liabilities. The changes in operating assets and liabilities primarily included an increase of RMB92.3 million (US\$12.7 million) in accounts payable in relation to procurement of materials for production, an increase of RMB57.6 million (US\$7.9 million) in accrued expenses and other liabilities in relation to payrolls and tax payables, an increase of RMB31.3 million (US\$4.3 million) in accounts receivable in relation to receivables that we are entitled to receive primarily due to the increase in the sales volume, and an increase of RMB29.5 million (US\$4.0 million) in prepayments and other assets in relation to deductible value-added tax input and acquisition of inventories.

Net cash used in operating activities in 2023 was RMB88.4 million. This amount was primarily attributable to net loss of RMB302.3 million, adjusted to add back certain non-cash expenses, principally share-based compensation of RMB151.5 million, allowance for doubtful amounts of RMB13.7 million, depreciation of property and equipment of RMB12.4 million and amortization of right-of-use assets of RMB8.1 million, and further adjusted upwards due to changes in operating assets and liabilities. The changes in operating assets and liabilities primarily included an increase of RMB20.5 million in accounts receivable in relation to the receivables that we are entitled to receive and a decrease of RMB3.7 million in lease liabilities in relation to lease payments for office and production facilities and offset mainly by an increase of RMB17.8 million in contract liabilities in relation to more payments received before the sale of products or services to customers, a decrease of RMB10.7 million in prepayments and other current assets in relation to consideration received for vested share-based awards under share incentive plan, and a decrease of RMB7.8 million in inventories in relation to procurement of materials for production and finished goods.

Net cash used in operating activities in 2022 was RMB173.5 million. This amount was primarily attributable to net loss of RMB329.3 million, adjusted to add back certain non-cash expenses, principally share-based compensation of RMB96.9 million, allowance for doubtful amounts of RMB47.8 million, amortization of right-of-use assets of RMB12.0 million and depreciation of property and equipment of RMB8.5 million, and further adjusted upwards due to changes in operating assets and liabilities. The changes in operating assets and liabilities primarily included an increase of RMB10.1 million in accounts receivable in relation to the receivables that we are entitled to receive, an increase of RMB2.3 million in inventories in relation to procurement of materials for production and finished goods, an increase of RMB22.9 million in prepayments in relations of prepayments to suppliers and other service providers, and a decrease of RMB10.1 million in accounts payable in relation to payments for purchase of materials and offset mainly by a decrease of RMB1.3 million in amount due from a related party in relation to the receipt of outstanding payment for sale of product, and an increase of RMB4.5 million in contract liabilities in relation to more payments received before the sale of products or services to customers, and an increase of RMB36.3 million which was mainly due to the estimated provision of US\$3.375 million for an employment dispute. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

Investing Activities

Net cash used in investing activities in 2024 was RMB482.5 million (US\$66.1 million), mainly consisting of purchase of short-term investments of RMB885.7 million (US\$121.3 million) and payments for short-term deposits of RMB130.1 million (US\$17.8 million), partially offset by redemption of short-term investments of RMB444.8 million (US\$60.9 million) and proceeds received from maturity of short-term deposits of RMB143.8 million (US\$19.7 million).

Net cash used in investing activities in 2023 was RMB128.7 million, mainly consisting of purchase of short-term investments of RMB56.7 million, purchase of restricted short-term deposits of RMB33.4 million and purchase of short-term deposits of RMB14.2 million.

Net cash provided by investing activities in 2022 was RMB56.4 million, mainly consisting of net proceeds of short-term investments of RMB74.6 million and purchase of property and equipment of RMB12.2 million for both Yunfu production facility and new headquarter office.

Financing Activities

Net cash provided by financing activities in 2024 was RMB701.4 million (US\$96.1 million), primarily attributable to RMB698.1 million (US\$95.6 million) from issuance of Class A ordinary shares under the ATM Program and certain private placement transactions.

Net cash provided by financing activities in 2023 was RMB195.5 million, primarily attributable to RMB250.2 million from issuance of Class A ordinary shares, including to several strategic investors in connection with a US\$23.0 million private placement which had closed in the third quarter of 2023, and net proceeds of RMB69.1 million from short-term bank loans.

Net cash provided by financing activities in 2022 was RMB106.7 million, primarily attributable to RMB69.9 million from an investor in connection with a private placement of our Class A ordinary shares which had closed in the first quarter of 2023, and net proceeds of RMB36.8 million from bank loans.

Capital Expenditures

Our capital expenditures were RMB13.8 million, RMB9.1 million and RMB40.1 million (US\$5.5 million) in 2022, 2023 and 2024, respectively, which were mainly used for the purchase of property and equipment for the establishment and installation of equipment at our manufacturing facility in Yunfu, renovations for the new offices at our headquarters, and improvements for other office buildings. We plan to fund our future capital expenditures with our existing cash balance.

Material Cash Requirements

Our material cash requirements as of December 31, 2024 and any subsequent interim period primarily include operating lease commitments, short-term bank loans, long-term bank loans, mandatorily redeemable non-controlling interests, capital commitment for property, plant and equipment, and investment obligations.

Our operating lease commitments primarily represent our non-cancelable lease of offices and facilities for business operation. We lease offices under non-cancelable operating lease arrangements with initial terms in excess of one year.

Our mandatorily redeemable non-controlling interests primarily represent our obligations for the payment to the mandatorily redeemable non-controlling interest investment in a subsidiary.

We intend to fund our existing and future material cash requirements primarily with our existing cash balance and other financing alternatives. We will continue to make cash commitments, including capital expenditures, to support the growth of our business.

The following table sets forth our contractual obligations as of December 31, 2024:

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease commitments	186,725	12,802	30,072	27,014	116,837
Short-term bank loans ⁽¹⁾	65,290	65,290	—	—	—
Long-term bank loans ⁽¹⁾	32,817	11,362	21,455	—	—
Mandatorily redeemable non-controlling interests ⁽¹⁾	40,450	40,450	—	—	—
Capital commitment for property, plant and equipment	10,184	10,184	—	—	—
Investment obligations	3,150	3,000	150	—	—
Total	338,616	143,088	51,677	27,014	116,837

Note:

- (1) The short-term bank loans, long-term bank loans and mandatorily redeemable non-controlling interests are presented with the principle and estimated interest calculated based on the contractual interest rate.

As disclosed in our consolidated financial statements included elsewhere in this annual report, we had unrecognized tax benefits. The final outcome of the tax uncertainty is dependent upon various matters including tax examinations, interpretation of tax laws or expiration of statutes of limitation. However, due to the uncertainties associated with the status of examinations, including the protocols of finalizing audits by the relevant tax authorities, there is a high degree of uncertainty regarding the future cash outflows associated with these tax uncertainties.

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of December 31, 2024.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

Holding Company Structure

We are a holding company with no material operations on our own. We conduct our operations primarily through the WFOE, the VIE and their respective subsidiaries in China. As a result, our ability to pay dividends depends upon dividends paid by the WFOE. If the WFOE or any newly formed PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiary in China is permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of the WFOE, the VIE and their respective subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to contribute to certain statutory reserve funds until the cumulative amount of such reserve funds reaches 50% of its registered capital. As of December 31, 2024, the total registered capital of the WFOE, the VIE and their respective subsidiaries in China amounted to RMB1,663.3 million (US\$227.9 million), implying a maximum total amount of RMB831.6 million (US\$113.9 million) in statutory reserve funds to be set aside from their after-tax profits, if any. Our WFOE, the VIE and their respective subsidiaries in China had set aside a cumulative amount of RMB1.8 million (US\$0.2 million) for such statutory reserve funds as of December 31, 2024. We believe that setting aside such additional amount will not have a material adverse impact on our business or liquidity because (i) a company is not required to set aside any amount for its statutory reserve fund until it has positive after-tax profits; (ii) the amount to be set aside annually is only 10% of a company's after-tax profits, if any, and (iii) pursuant to the PRC Company Law, the statutory reserve funds can be used for offsetting a company's losses, expanding its business operations and increasing its capital. In addition, our wholly foreign-owned subsidiary in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds and staff bonus and welfare funds at its discretion, and the VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our WFOE has not paid dividends and will not be able to pay dividends until it generates accumulated profits and meets the requirements for statutory reserve funds.

Inflation

Since our inception, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index were an increase of 1.8% for December 2022, a decrease of 0.3% for December 2023, and an increase of 0.1% for December 2024. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in mainland China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. We are not able to hedge our exposure to higher inflation in mainland China.

C. Research and Development, Patents and Licenses, etc.

See “Item 4. Information on the Company—B. Business Overview—Research and Development Capabilities” and “—Intellectual Property.”

D. Trend Information

Other than as described elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material adverse effect on our revenue, income from continuing operations, profitability, liquidity or capital resources, or that would cause our reported financial information not necessarily to be indicative of future operating results or financial condition.

E. Critical Accounting Estimates

Our consolidated financial statements have been prepared in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Changes in the economic environment, financial markets, and any other parameters used in determining such estimates could cause actual results to differ. Our critical accounting estimates are described below. The critical accounting estimates should be read in conjunction with our risk factors as disclosed in “Item 3. Key Information—D. Risk Factors.” See Note 2 to our consolidated financial statements for the year ended December 31, 2024 for more information on our critical accounting policies.

Current expected credit loss

Our cash and cash equivalents, short-term deposits, restricted short-term deposits, accounts receivable, contract assets, loans receivable, other receivables and other non-current assets are within the scope of ASC Topic 326. We have identified the relevant risk characteristics of our customers and the related receivables which include the products we provide, the type of business, the scale of transactions on credit terms, the nature of counterparties and the level of credit risk of the customers, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, we consider the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include payment terms offered in the normal course of business to customers and industry-specific factors that could impact our receivables. Additionally, external data and macroeconomic factors are also considered. This is assessed at each quarter based on our specific facts and circumstances. For the year ended December 31, 2024, we recorded RMB12,790 million (US\$1,752 million) of expected credit loss in general and administrative expenses.

We apply management’s judgments and estimates when determining the expected credit loss to be recognized. We reassess the allowance at each balance sheet date. Where the basis of judgments and estimates is different from the initial assessment, such differences will impact the expected credit loss and the carrying values of the accounts receivable in the year. As of December 31, 2023 and 2024, we assessed the ending balance of expected credit losses provision to be RMB131.8 million and RMB103.3 million (US\$14.2 million), respectively. The decrease was based on our assessment as of December 31, 2024, with our judgments and estimates that certain long-aging receivables should be written off. Changes in these estimates and assumptions could materially affect the allowance losses.

Valuation allowance for deferred tax assets

We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. Significant judgment is required in determining the valuation allowance. In assessing the need for a valuation allowance, we consider all sources of taxable income, including projected future taxable income, reversing taxable temporary differences and ongoing tax planning strategies. If it is determined that we are able to realize deferred tax assets in excess of the net carrying value or to the extent we are unable to realize a deferred tax asset, we would adjust the valuation allowance in the period in which such a determination is made, with a corresponding increase or decrease to earnings.

Item 6. Directors, Senior Management and Employees

A. Directors and senior management

The following table sets forth certain information relating to our directors and executive officers as of the date of this annual report.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Huazhi Hu	48	Chairman and Chief Executive Officer
Haoliang Hou	36	Independent Director
Conor Chia-hung Yang	62	Director and Chief Financial Officer
Dongming Wu	61	Independent Director
Nick Ning Yang	49	Independent Director
Wing Kee Lau	60	Independent Director
Zhao Wang	47	Chief Operating Officer

Mr. Huazhi Hu is our founder and has served as our chief executive officer and the chairman of the board of directors since our inception. Mr. Hu founded our predecessor company, Beijing Yihang Chuangshi Technology Co., Ltd. in 2005, a leader in providing large-scale command-and-control systems. Mr. Hu also worked as the chief technology officer at Beijing 999 Emergency Rescue Center in charge of the development of the emergency command & control center between 2008 and 2010, and worked at Beijing Jindian Group as a vice president overseeing information management between 2006 and 2008. Mr. Hu is a recipient of the Technology Innovation Award presented at the Living Legends of Aviation event in 2019. Mr. Hu attended Tsinghua University where he studied computer science between 1992 and 1997.

Mr. Haoliang Hou has served as our director since August 2015. Mr. Hou has been the founder and the chief investment officer of Houxue Capital since July 2022. He has served as the managing partner and investment committee head of GP Venture Capital, senior partner and investment committee member of GP Hi-Tech Capital, and vice president of investments at GP Xincheng Capital from April 2015 to June 2022. Mr. Hou was named on the list of “Forbes China Top 100 Venture Capitalists” in 2023 and 2024. Mr. Hou received his dual bachelor’s degree in electrical engineering and international finance and his master’s degree in business administration from Shanghai Jiao Tong University in 2011 and 2015, respectively. Mr. Hou is also a CFA charterholder.

Mr. Conor Chia-hung Yang has served as our director since December 2019 and as our chief financial officer since September 2023. From 2007 to 2023, Mr. Yang served in several chief financial officer positions, including at Tuniu Corporation (Nasdaq: TOUR), E-Commerce China Dangdang Inc., and AirMedia Group Inc. Mr. Yang was the chief executive officer of Rock Mobile Corporation from 2004 to 2007, and the chief financial officer of the Asia Pacific region for CellStar Asia Corporation from 1999 to 2004. Prior to that, Mr. Yang was a senior banker at Goldman Sachs (Asia) L.L.C., Lehman Brothers Asia Limited and Morgan Stanley Asia Limited from 1992 to 1999. Mr. Yang currently also serves as an independent director of I-Mab (Nasdaq: IMAB), iQIYI, Inc. (Nasdaq: IQ), Tongcheng Travel Holdings Limited (HKSE: 0780), UP Fintech Holding Ltd (Nasdaq: TIGR) and Smart Share Global Limited (Nasdaq: EM). Mr. Yang received his master’s degree in business administration from the University of California, Los Angeles (UCLA).

Mr. Dongming Wu has served as our director since June 2020. Mr. Wu has served as a Managing Director of DHL-Sinotrans since May 2003. He also currently serves as the Chief Executive Officer of DHL Express China and a Global Management Board Member of DHL Express. DHL-Sinotrans, a leading international express company in China, is a joint venture between the global delivery and logistics giant DHL and Sinotrans. Mr. Wu has over 30 years of experience in the global delivery and logistics industry. He started his career at Sinotrans in July 1986, where he held various senior management positions and most recently served as the chairman of its supervisory board through March 2017. Mr. Dongming Wu received his bachelor’s degree in economics from Beijing International Studies University and his EMBA degree from the BiMBA Business School of the National School of Development at Peking University.

Mr. Nick Ning Yang has served as our director since December 2022. Mr. Yang has served as a founding partner of LeBox Capital, a venture investment fund that focuses on early-stage high growth TMT companies in China, since October 2011. Prior to that, Mr. Yang was a co-founder of KongZhong Corporation, a company focusing on wireless value-added services and listed on Nasdaq in July 2004, and served as Chief Technology Officer from 2002 to 2008. Mr. Yang had also held the position of Vice President of Technology at Nasdaq-listed Sohu from 2000 to 2001. From 1999 to 2000, Mr. Yang served as Chief Technology Officer of ChinaRen.com, a company he co-founded. Mr. Yang received a bachelor's degree in electrical engineering from the University of Michigan in 1997 and a master's degree in electrical engineering from the Stanford University in 1999.

Mr. Wing Kee Lau has served as our independent director since August 2023. Mr. Lau has served as the chief financial Officer of RoboSense Technology Co., Ltd. (HKSE: 2498) since August 2022. He served as an independent director of Genetron Holdings Limited (NASDAQ: GTH) from June 2020 to March 2024. Mr. Lau served as the chief financial Officer in Tarena International Inc. (NASDAQ: TEDU) from March 2020 to July 2022, the chief financial officer in Square Panda Inc. from July 2018 to August 2019, the chief financial officer in Perfect World Co., Ltd. (SHE: 002624) from March 2007 to June 2018, the chief financial officer and company secretary in Beijing Media Corporation Ltd. (HKSE: 1000) from November 2004 to February 2007, and a financial director in Ogilvy & Mather Advertising Ltd. Beijing Branch from July 2000 to October 2004. Prior to that, Mr. Lau worked in PricewaterhouseCoopers from January 1994 to July 2000. Mr. Lau obtained a bachelor's degree in business administration (finance) from the Hong Kong Baptist University in Hong Kong in November 1990, and an executive master of business administration degree from Cheung Kong Graduate School of Business in China in September 2011. Mr. Lau is an associate of both of The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants.

Mr. Zhao Wang has served as our chief operating officer since April 2024. Prior to joining us, Mr. Wang worked for Antaeus Group, a Chinese group enterprise with cross-industry services in resort, film and art, as the chief executive officer of Mangrove Tree Technology Group from June 2020 to March 2024. He played a pivotal role in driving digital transformation initiatives and planning business operations for several super-large-scale resorts in China, including the deployment of intelligent operational and management system platforms and introducing self-driving vehicles in air as well as on the ground and water to resorts. Prior to that, Mr. Wang was the chief executive officer at Beijing Ganlan Technology Development Co., Ltd., an IT consulting firm, from August 2017 to June 2020. Between October 2008 and August 2017, Mr. Wang served in several executive positions at Antaeus Investment Group and was in charge of platform development, operation and management for cultural tourism projects and digital film industries. From December 2006 to October 2008, Mr. Wang served as technology manager in Sohu.com and led the architecture design of the website information system for the 2008 Summer Olympic Games in Beijing. Mr. Wang also participated in the development of information system for the 2004 Summer Olympic Games in Athens. Mr. Wang holds a bachelor's degree in computer science and technology from Tsinghua University.

B. Compensation

Compensation of Directors and Executive Officers

For the fiscal year ended December 31, 2024, we paid an aggregate of approximately RMB8.1 million (US\$1.1 million) in cash to our directors and executive officers. We are not required under Cayman Islands law to disclose, and we have not otherwise disclosed, the compensation of our directors and executive officers on an individual basis. We have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our directors and executive officers. Our PRC subsidiaries and VIE are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, unemployment insurance and other statutory benefits and a housing provident fund.

Employment Agreements and Indemnification Agreements

We have entered into employment agreements with each of our executive officers. We may terminate employment for cause, at any time, without advance notice or remuneration, for certain acts of the executive officer, such as conviction or plea of guilty to a felony or any crime involving moral turpitude, negligent or dishonest acts to our detriment, or misconduct or a failure to perform agreed duties. In such case of termination by us, we will provide severance payments to the executive officer as expressly required by applicable law of the jurisdiction where the executive officer is based. The executive officer may resign at any time with a 30 days' advance written notice.

Each executive officer has agreed to hold, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment or pursuant to applicable law, any of our confidential information or trade secrets, any confidential information or trade secrets of our clients or prospective clients, or the confidential or proprietary information of any third party received by us and for which we have confidential obligations. The executive officers have also agreed to disclose in confidence to us all inventions, designs and trade secrets which they conceive, develop or reduce to practice during the executive officer's employment with us and to assign all right, title and interest in them to us, and assist us in obtaining and enforcing patents, copyrights and other legal rights for these inventions, designs and trade secrets. In addition, each executive officer has agreed to be bound by non-competition and non-solicitation restrictions during the term of his or her employment and typically for one year following the last date of employment.

We have also entered into indemnification agreements with each of our directors and executive officers. Under these agreements, we agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being a director or officer of our company.

2015 Share Incentive Plan

Our board of directors approved the 2015 Share Incentive Plan, or the 2015 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. The maximum aggregate number of ordinary shares that may be issued under the 2015 Plan pursuant to all awards under the 2015 Plan is 8,867,053 ordinary shares and can be increased up to a number that is equal to 15% of the then total outstanding shares on a fully diluted basis at the discretion of our board of directors. As of March 31, 2025, 53,737 share options were outstanding under the 2015 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

The following paragraphs describe the principal terms of the 2015 Plan.

Types of Awards. The 2015 Plan permits the awards of options, restricted shares and restricted share units.

Plan Administration. Our board of directors or a committee of one or more members of the board of directors will administer the 2015 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2015 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Eligibility. We may grant awards to our employees, consultants and directors, as determined by our board of directors or a committee of one or more members of the board of directors.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 2015 Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the 2015 Plan. Unless terminated earlier, the 2015 Plan has a term of ten years. With the approval of our board of directors, the plan administrator has the authority to terminate, amend or modify the 2015 Plan. However, without the prior written consent of the participant, no such action may adversely affect in any material way any award previously granted pursuant to the 2015 Plan.

2019 Share Incentive Plan

Our board of directors approved the 2019 Share Incentive Plan, or the 2019 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. The 2019 Plan became effective upon the completion of the Company's initial public offering in 2019. The maximum aggregate number of ordinary shares that may be issued under the 2019 Plan is initially 5,455,346, which may be increased by up to 15% of the then total outstanding shares on a fully diluted basis at the discretion of our board of directors. As of the date of this annual report, the maximum aggregate number of ordinary shares that may be issued under the 2019 Plan is 13,941,558. As of March 31, 2025, 4,093,500 restricted share units and 186,000 options were outstanding under the 2019 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

The following paragraphs describe the principal terms of the 2019 Plan.

Types of Awards. The 2019 Plan permits the awards of options, restricted shares and restricted share units.

Plan Administration. Our board of directors or a committee of one or more members of the board of directors will administer the 2019 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2019 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the grantee's employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Eligibility. We may grant awards to our employees, consultants and directors, as determined by our board of directors or a committee of one or more members of the board of directors.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 2019 Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the 2019 Plan. Unless terminated earlier, the 2019 Plan has a term of ten years. With the approval of our board of directors, the plan administrator has the authority to terminate, amend or modify the 2019 Plan. However, without the prior written consent of the participant, no such action may adversely affect in any material way any award previously granted pursuant to the 2019 Plan.

2023 Share Incentive Plan

Our board of directors approved the 2023 Share Incentive Plan, or the 2023 Plan, to attract and retain the best available personnel, provide additional incentives to employees, directors and consultants, and promote the success of our business. The 2023 Plan became effective on December 22, 2023. The maximum aggregate number of ordinary shares that may be issued under the 2023 Plan is initially 3,782,555 (the “Maximum Number”). On the first day of each of the subsequent fiscal years during the term of the 2023 Plan starting from January 1, 2024, the Maximum Number shall automatically increase by an amount determined by the Board that is equal to no more than 3% of the total number of shares outstanding on the last day of the immediately preceding fiscal year. If the Board does not determine such amount of increase by the first day of each of the subsequent fiscal years, the Maximum Number shall automatically increase by 3% of the total number of shares outstanding on the last day of the immediately preceding fiscal year. As of the date of this annual report, the maximum aggregate number of ordinary shares that may be issued under the 2023 Plan is 11,905,990. As of March 31, 2025, 2,305,100 restricted share units and 2,762,930 options were outstanding under the 2023 Plan, excluding awards that were forfeited or cancelled after the relevant grant dates.

The following paragraphs describe the principal terms of the 2023 Plan.

Types of Awards. The 2023 Plan permits the awards of options, restricted shares and restricted share units.

Plan Administration. Our board of directors or a committee of one or more members of the board of directors will administer the 2023 Plan. The committee or the full board of directors, as applicable, will determine the participants to receive awards, the type and number of awards to be granted to each participant, and the terms and conditions of each award grant.

Award Agreement. Awards granted under the 2023 Plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the grantee’s employment or service terminates, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Eligibility. We may grant awards to our employees, consultants and directors, as determined by our board of directors or a committee of one or more members of the board of directors.

Vesting Schedule. In general, the plan administrator determines the vesting schedule, which is specified in the relevant award agreement.

Transfer Restrictions. Awards may not be transferred in any manner by the participant other than in accordance with the exceptions provided in the 2023 Plan or the relevant award agreement or otherwise determined by the plan administrator, such as transfers by will or the laws of descent and distribution.

Termination and Amendment of the 2023 Plan. Unless terminated earlier, the 2023 Plan has a term of ten years. With the approval of our board of directors, the plan administrator has the authority to terminate, amend or modify the 2023 Plan. However, without the prior written consent of the participant, no such action may adversely affect in any material way any award previously granted pursuant to the 2023 Plan.

The following table summarizes, as of March 31, 2025, the number of Class A ordinary shares under outstanding options, restricted share units and other equity awards that we granted to our directors and executive officers, excluding awards that were settled, forfeited or cancelled after the relevant grant dates.

<u>Name</u>	<u>Class A Ordinary Shares underlying Equity Awards</u>	<u>Date of Grant</u>	<u>Date of Expiration</u>
Huazhi Hu	*	January 1, 2024	December 31, 2034
Conor Chia-hung Yang		August 1, 2023	July 31, 2033
		*	January 1, 2024
Dongming Wu	*	October 1, 2024	September 30, 2034
Nick Ning Yang	*	March 27, 2023	March 26, 2033
Wing Kee Lau	*	August 16, 2023	August 15, 2033
Zhao Wang	*	October 1, 2024	September 30, 2034
All directors and officers as a group	5,944,737	Various dates from March 27, 2023 to October 1, 2024	Various dates from March 26, 2033 to September 30, 2034

* Vested equity awards less than 1% of our total outstanding ordinary shares on an as-converted basis.

As of March 31, 2025, our employees other than members of our senior management as a group held 755,100 restricted share units and 2,698,930 options.

Clawback Policy

In 2023, our board of directors adopted an Incentive Compensation Recoupment Policy, or the Clawback Policy, providing for the recovery of certain incentive-based compensation from current and former executive officers of our company in the event our company is required to restate any of its financial statements filed with the SEC under the Exchange Act in order to correct an error that is material to the previously-issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. Adoption of the Clawback Policy was mandated by Nasdaq listing standards introduced pursuant to Exchange Act Rule 10D-1. A copy of our Clawback Policy is attached as Exhibit 97.1 to this annual report.

C. Board Practices

Board of Directors

Our board of directors consists of six directors. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract or transaction, or proposed contract or transaction in which he or she is, whether directly or indirectly, interested, provided that (a) such director has declared the nature of his or her interest at the earliest meeting of the board at which it is practicable for him or her to do so, either specifically or by way of a general notice, and (b) if such contract or transaction, or proposed contract or transaction is a transaction with a related party, such transaction has been approved by the audit committee in accordance with the Nasdaq rules. The directors may exercise all the powers of the company to borrow money, mortgage or charge its undertaking, property and assets (present or future) and uncalled capital or any part thereof, and issue debentures, debenture stock, bonds or other securities whether outright or as collateral security for any obligation of the company or of any third party. None of our non-executive directors has a service contract with us that provides for benefits upon termination of service.

Committees of the Board of Directors

A company of which more than 50% of the voting power is held by a single entity is considered a “controlled company” under the Nasdaq Stock Market Rules. A controlled company is not required to comply with the Nasdaq corporate governance rules requiring a board of directors to have a majority of independent directors, to have an independent compensation committee, and to have an independent nominating and corporate governance committee. We are a “controlled company” as defined under the Nasdaq Stock Market Rules, but we have no current intention to rely on the controlled company exemption.

We have established three committees under the board of directors: an audit committee, a compensation committee and a nominating and corporate governance committee. We have adopted a charter for each of the three committees. Each committee’s members and functions are described below.

Audit Committee. Our audit committee consists of Wing Kee Lau, Dongming Wu and Haoxiang Hou. Wing Kee Lau is the chairman of our audit committee. We have determined that each of Wing Kee Lau, Dongming Wu and Haoxiang Hou satisfies the “independence” requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq Stock Market and Rule 10A-3 under the Exchange Act, as amended. We have determined that Wing Kee Lau qualifies as an “audit committee financial expert.” The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;

- reviewing with the independent auditors any audit problems or difficulties and management’s response;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposures;
- reviewing and approving all proposed related party transactions;
- meeting separately and periodically with management and the independent auditors; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Compensation Committee. Our compensation committee consists of Haoxiang Hou and Wing Kee Lau. Haoxiang Hou is the chairman of our compensation committee. We have determined that each of Haoxiang Hou and Wing Kee Lau satisfies the “independence” requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq Stock Market. The compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Huazhi Hu and Haoxiang Hou. Huazhi Hu is the chairperson of our nominating and corporate governance committee. We have determined that Haoxiang Hou satisfies the “independence” requirements of Rule 5605(c)(2) of the Listing Rules of the Nasdaq Stock Market. The nominating and corporate governance committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The nominating and corporate governance committee is responsible for, among other things:

- selecting and recommending to the board nominees for election by the shareholders or appointment by the board;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, knowledge, skills, experience and diversity;
- making recommendations on the frequency and structure of board meetings and monitoring the functioning of the committees of the board; and
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken.

Duties of Directors

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise skills they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth Courts have moved toward an objective standard with regards to the registered skill and care and these authorized are likely to be followed in the Cayman Islands. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time. Our company has the right to seek damages if a duty owed by our directors is breached. In certain limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual and extraordinary general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of the officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares in our company, including the registration of such shares in our share register.

Terms of Directors and Officers

Our directors may be elected by a resolution of our board of directors or by an ordinary resolution of our shareholders. Unless otherwise determined by our company in general meeting, our company shall have not less than three (3) directors, and there shall be no maximum number of directors. An appointment of a director may be on terms that the director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period in a written agreement between our company and the director, if any; but no such term shall be implied in the absence of express provision. Each director whose term of office expires shall be eligible for re-election at a meeting of the Shareholders or re-appointment by our board of directors. Our directors may be removed from office by ordinary resolution of the shareholders. In addition, a director's office will be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found by our company to be or becomes of unsound mind; (iii) resigns his office by notice in writing to us; (iv) without special leave of absence from our board, is absent from three consecutive board meetings and our board of directors resolves that his office be vacated; or (v) is removed from office pursuant to any other provisions of our memorandum and articles of association.

Our officers are elected by and serve at the discretion of the board of directors.

D. Employees

We had 341, 367 and 483 employees as of December 31, 2022, 2023 and 2024, respectively. As of December 31, 2024, we had 445 employees in Guangzhou, 30 employees in Yunfu, one employee in Beijing, one in Shenzhen and six employees outside China. The following table sets forth the number of our employees categorized by function as of December 31, 2024:

Function	Number	% of Total Employees
Research and product development department	234	48.5%
Marketing and sales department	102	21.1%
General administration department	147	30.4%
Total number of employees	483	100.0%

We also had 115, 153 and 284 full-time contractors who are involved in the manufacturing of our products as of December 31, 2022, 2023 and 2024, respectively.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments, including housing, pension, medical insurance and unemployment insurance. We are required under PRC law to make contributions to an employee benefit plan at a specified percentage of the salaries, bonuses and certain allowances of our employees, up to a maximum amount specified by the local government from time to time. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Increases in labor costs and enforcement of stricter labor laws and regulations in the PRC may adversely affect our business and our profitability.”

We typically enter into standard employment and confidentiality agreements with our key employees. In addition, we entered into confidentiality and non-compete agreements with senior management and intellectual property assignment agreements with core technical personnel.

Our success depends on our ability to attract, retain and motivate qualified employees that share our values and vision. We believe that we maintain a good working relationship with our employees.

E. Share Ownership

Except as specifically noted, the following table sets forth information with respect to the beneficial ownership of our ordinary shares as of March 31, 2025 by:

- each of our directors and executive officers; and
- each person known to us to beneficially own more than 5% of our ordinary shares on an as-converted basis.

The calculations in the table below are based on 104,943,155 Class A ordinary shares (excluding Class A ordinary shares issued to the depository bank for bulk issuance of ADSs reserved for future issuances upon the exercise or vesting of awards granted under our share incentive plans and treasury shares) and 39,026,560 Class B ordinary shares outstanding as of March 31, 2025.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days after March 31, 2025, including through the exercise of any restricted share unit, option, warrant or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

	Class A Ordinary Shares	Class B Ordinary Shares	Total Ordinary Shares on an as- Converted Basis	% of Beneficial Ownership	% of Aggregate Voting Power***
Directors and Executive Officers:**					
Huazhi Hu ⁽¹⁾	1,020,258	39,026,560	40,046,818	27.8%	79.0%
Haoxiang Hou ⁽²⁾	*	—	*	*	*
Conor Chia-Hung Yang ⁽³⁾	*	—	*	*	*
Dongming Wu ⁽⁴⁾	*	—	*	*	*
Nick Ning Yang ⁽⁵⁾	*	—	*	*	*
Wing Kee Lau ⁽⁶⁾	*	—	*	*	*
Zhao Wang ⁽⁷⁾	*	—	*	*	*
All Directors and Executive Officers as a Group	1,826,745	39,026,560	40,853,305	28.3%	79.1%
Principal Shareholder:					
Genesis Rising Limited ⁽⁸⁾	350,000	39,026,560	39,376,560	27.4%	78.9%

Notes:

* Less than 1% of our total outstanding shares.

** Messrs. Huazhi Hu, Conor Chia-Hung Yang, and Zhao Wang's business address is 11/F Building One, EHang Technology Park, No. 29 Bishan Blvd., Huangpu District, Guangzhou, Guangdong Province, 510700, PRC. Mr. Haoxiang Hou's business address is No. 151 Mao Jia Yuan Rd, Huangpu District, Shanghai, PRC. Mr. Wing Kee Lau's business address is Building 9, Block 2, Zhongguan Honghualing Industry Southern District, 1213 Liuxian Avenue, Taoyuan Street, Nanshan District, Shenzhen, Guangdong Province, PRC. Mr. Dongming Wu's business address is No. 18 Rong Hua South Road, Beijing Economic-Technological Development Area, Daxing District, Beijing, PRC. Mr. Nick Ning Yang's business address is No.107 AI Technology Park, No. 27 Xidawang Road, Chaoyang District, Beijing, PRC.

*** For each person and group included in this column, percentage of voting power is calculated by dividing the voting power beneficially owned by such person or group by the voting power of all of our outstanding Class A and Class B ordinary shares as a single class. Each holder of Class B ordinary shares is entitled to ten votes per share, and while each holder of our Class A ordinary shares is entitled to one vote per share on all matters submitted to them for a vote. Our Class A ordinary shares and Class B ordinary shares vote together as a single class on all matters submitted to a vote of our shareholders. Our Class B ordinary shares are convertible at any time by the holders thereof into Class A ordinary shares on a one-for-one basis.

- (1) Represents (i) 350,000 Class A ordinary shares and 39,026,560 Class B ordinary shares held by Genesis Rising Limited, a British Virgin Islands company that is wholly owned by Mr. Huazhi Hu, and (ii) 670,258 Class A ordinary shares represented by 335,129 ADSs held by Mr. Huazhi Hu. The registered address of Genesis Rising Limited is Start Chambers, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.
- (2) Represents Class A ordinary shares beneficially owned by Mr. Haoxiang Hou.
- (3) Represents Class A ordinary shares beneficially owned by Mr. Conor Chia-Hung Yang.
- (4) Represents Class A ordinary shares beneficially owned by Mr. Dongming Wu, including Class A ordinary shares underlying share options and restricted share units held by Mr. Dongming Wu that have vested as of March 31, 2025 or will vest within 60 days after March 31, 2025.
- (5) Represents Class A ordinary shares underlying restricted share units held by Mr. Nick Ning Yang that have vested as of March 31, 2025.
- (6) Represents Class A ordinary shares underlying restricted share units held by Mr. Wing Kee Lau that have vested as of March 31, 2025.
- (7) Represents Class A ordinary shares underlying restricted share units held by Mr. Zhao Wang that have vested as of March 31, 2025.
- (8) Represents 350,000 Class A ordinary shares and 39,026,560 Class B ordinary shares held by Genesis Rising Limited, a British Virgin Islands company that is wholly owned by Mr. Huazhi Hu. The registered address of Genesis Rising Limited is Start Chambers, Wickham's Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.

To our knowledge, as of March 31, 2025, 99,036,206 of our Class A ordinary shares were held by five record holders in the United States, including a total of 99,036,202 Class A ordinary shares held by The Bank of New York Mellon, the depositary of the ADS program. None of our outstanding Class B ordinary shares are held by record holders in the United States. The number of beneficial owners of the ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

To our knowledge, except as disclosed above, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal person or persons, severally or jointly. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

F. Disclosure of a Registrant’s Action to Recover Erroneously Awarded Compensation

Not applicable.

Item 7. Major Shareholders and Related Party Transaction

A. Major Shareholders

Please refer to “Item 6. Directors, Senior Management and Employees—E. Share Ownership.”

B. Related Party Transactions

Contractual Arrangements with the VIE and its Shareholders

Please refer to “Item 4. Information on the Company—C. Organizational Structure” for a detail description of the contractual arrangements among the WFOE, the VIE and the VIE’s shareholders.

In October 2020, the VIE paid a guarantee deposit of RMB2.6 million (US\$0.4 million) to a court in Guangzhou, China to lift a judicial freeze on certain equity interests of the VIE, which were then nominally held under the name of our founder and director, Mr. Huazhi Hu. The judicial freeze was placed in connection with an arbitration in which Mr. Hu was named as a party. As of December 31, 2021, the judicial freeze had been lifted and the VIE has collected the deposit.

Transactions with Related Parties

In 2024, we generated total revenue of (i) RMB0.1 million (US\$0.02 million) from sale of products to Hefei Heyi Aviation Co., Ltd. (“Hefei Heyi”), Wanyi Tianxia (Zhuhai) Aviation Co., Ltd. (“Wanyi Tianxia”) and Guangxi Fengshan Fengyi Aviation Service Co., Ltd. (“Fengshan Fengyi”), and (ii) RMB1.2 million (US\$0.2 million) from provision of services to Guangzhou Yitong Zhihang Technology Co., Ltd. (“Yitong Zhihang”), Hefei Heyi, Wanyi Tianxia and Wuxi Liangyun Low-Altitude Commercial Operation Management Co., Ltd. (“Wuxi Liangyun”). Each of Hefei Heyi, Wanyi Tianxia, Fengshan Fengyi, Yitong Zhihang and Wuxi Liangyun is an equity investee of our company and we have significant influence over them. As of December 31, 2024, we had account receivables of RMB0.5 million (US\$0.1 million) due from, and contract liabilities of RMB2.0 million (US\$0.3 million) due to, these equity investees in connection with product sales and services.

In 2023, we generated revenue of RMB3.0 million and RMB8.9 million from Yitong Zhihang and Xinjiang Xiyu Qingniao General Aviation Co., Ltd. (“Xiyu Qingniao”), respectively, through our sales of pilotless eVTOL aircraft. Each of Yitong Zhihang and Xiyu Qingniao is an equity investee of our company and we have significant influence over them. As of December 31, 2023, we had amount due from Yitong Zhihang of RMB1.7 million and contract liabilities to Xiyu Qingniao of RMB2.0 million relating to such sales.

In 2022, there was no transaction with related parties. As of December 31, 2022, we had no amount due from related parties.

As of December 31, 2024, RMB34.5 million (US\$4.7 million) short-term bank loans and RMB16.0 million (US\$2.2 million) long-term bank loans were guaranteed by Mr. Huazhi Hu, our founder, chairman and chief executive officer.

As of December 31, 2023, RMB40.0 million short-term bank loans and RMB12.8 million long-term bank loans were guaranteed by Mr. Huazhi Hu, our founder, chairman and chief executive officer.

Employment Agreements and Indemnification Agreements

Please refer to “Item 6. Directors, Senior Management and Employees—B. Compensation—Employment Agreements and Indemnification Agreements.”

Share Incentive Plans

Please refer to “Item 6. Directors, Senior Management and Employees—B. Compensation—2015 Share Incentive Plan,” “Item 6. Directors, Senior Management and Employees—B. Compensation—2019 Share Incentive Plan” and “Item 6. Directors, Senior Management and Employees—B. Compensation—2023 Share Incentive Plan.”

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Please refer to Item 18 “Financial Statements” for our audited consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we may be involved in disputes and legal or administrative proceedings in the ordinary course of our business, including actions with respect to breach of contract, labor and employment claims, copyright, trademark, patent infringement, bankruptcy and other matters. Other than as described in this annual report, we are not a party to any material ongoing legal or administrative proceedings which may have significant effects on our financial position, results of operations or cash flows.

Between February 17 and 26, 2021, three federal securities class action lawsuits (captioned *Amberber v. EHang Holdings Limited, et al.*, Case No. 1:21-cv-01392-GBD (S.D.N.Y., filed Feb. 17, 2021), *Chaumont v. EHang Holdings Limited, et al.*, Case No. 1:21-cv-01526-GBD (S.D.N.Y., filed Feb. 19, 2021), and *Klein v. EHang Holdings Limited, et al.*, Case No. 2:21-cv-01811-JFW-PVC (C.D. Cal., filed Feb. 26, 2021)) were filed by purported holders of our ADSs in federal court. The complaints asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and generally allege that our company and certain of our officers made false and misleading statements regarding the status of its urban air mobility business, its international and domestic regulatory approvals, its relationships with major customers, and its manufacturing facilities. The complaints name as defendants our company and certain of our officers. In addition to costs and attorneys’ fees, the complaints seek compensatory and punitive damages. We believe these claims are without merit and intend to vigorously defend against them. These lawsuits were consolidated into a single class action lawsuit under the caption *In re EHang Holdings Ltd. Securities Litigation 1:21-CV-01392-GBD-GWG* (S.D.N.Y., filed Feb. 19, 2021), and a lead plaintiff and lead counsel were selected in February 2022. The lead plaintiff filed an amended complaint on April 25, 2022, making similar allegations as those in the previous complaints. Defendants filed a motion to dismiss the amended complaint in June 2022. The lead plaintiff filed an opposition to the defendants’ motion to dismiss in August 2022. The defendants filed a reply in support of their motion to dismiss in September 2022. In October 2022, the Court held oral argument on defendants’ motion to dismiss. The Court granted the defendants’ motion to dismiss the amended complaint on December 15, 2022, and entered final judgment dismissing the action in its entirety with prejudice on January 24, 2023. Lead plaintiff did not appeal the final judgment and on February 23, 2023, lead plaintiff’s deadline to appeal expired.

A former employee of our former U.S. subsidiary, EHang, Inc., filed a civil lawsuit against EHang Holdings, the VIE and certain individual defendants, including Mr. Huazhi Hu, chairman and chief executive officer of EHang Holdings, in the United States District Court for the Northern District of California. The plaintiff alleged that he was entitled to receive restricted share units from us. Following a trial by jury in April 2022, the Court entered judgment for the Plaintiff and against EHang Holdings, the VIE and Mr. Huazhi Hu as follows: (i) Judgment is entered against EHang Holdings on claims for breach of contract, false promise and unpaid wages, and EHang Holdings is held jointly and severally liable for compensatory damages in the amount of US\$3,500,000 and is liable for punitive damages in the amount of US\$10,000,000; (ii) Judgment is entered against the VIE on claims for breach of contract, false promise and unpaid wages, and the VIE is held jointly and severally liable for compensatory damages in the amount of US\$3,500,000; and (iii) Judgment is entered against Mr. Huazhi Hu on claims for false promise and unpaid wages, and Mr. Hu is held jointly and severally liable for compensatory damages in the amount of US\$3,500,000 and is liable for punitive damages in the amount of US\$5,000,000. We then filed a Motion for New Trial challenging the finding of false promise, the amount of the compensatory damage award, and the amount of the punitive damage award. The judge granted the Motion as to the false promise claim and set aside the verdict on that cause of action against EHang Holdings and Mr. Hu, and because the false promise claim was the only claim that could give rise to punitive damages, the Court set aside the punitive damage award and ordered a new trial on the false promise claim. The Court denied the motion as to the compensatory damage award. Following the Motion for New Trial, the parties have been engaged in settlement discussions. On April 25, 2023, the parties entered into a settlement agreement involving a total payment to the former employee of \$3,375,000 in four equal quarterly installments within one year. The Company had paid all four installments as of the date of this annual report.

On December 4, 2023, a securities class action complaint (captioned *Pujo v. EHang Holdings Limited*, No. 2:23-cv-10165 (C.D. Cal.)) was filed by purported holders of the Company's ADSs in federal court. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and generally alleges that the Company and certain of its officers and directors made false and misleading statements regarding the Company's business, operations, and prospects, among other allegations. The complaint is based in large part on a November 7, 2023, report issued by short seller Hindenburg Research. The complaint names as defendants certain of the Company's officers and directors. The complaint seeks unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including reasonable attorneys' fees. On February 2, 2024, purported stockholders of the Company moved for appointment as lead plaintiff. On August 12, 2024, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on October 14, 2024. EHang moved to dismiss the amended complaint on December 7, 2024, and the lead plaintiff filed an opposition to the motion on January 31, 2025. EHang filed a reply in support of its motion to dismiss on March 14, 2025. On March 26, 2025, the Court granted in part and denied in part EHang's motion to dismiss. We intend to vigorously defend against these claims. However, given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

Dividend Policy

Our board of directors has discretion on whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, all dividends are subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or share premium, and provided always that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is paid. Even if we decide to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends from our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Item 4. Information on the Company—B. Business Overview—PRC Regulation—Dividend Distribution."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the Class A ordinary shares underlying the ADSs to the depository, as the registered holder of such ordinary shares, and the depository then will pay such amounts to the ADS holders in proportion to the Class A ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offer and Listing Details

See “—C. Markets.”

B. Plan of Distribution

Not applicable.

C. Markets

The ADSs, each represents two Class A ordinary shares, have been listed on the Nasdaq Global Market since December 12, 2019, under the symbol “EH.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our currently effective fifth amended and restated memorandum and articles of association, and of the Companies Act, insofar as they relate to the material terms of our ordinary shares.

Objects of Our Company. Under our memorandum and articles of association, the objects of our company are unrestricted and we have the full power and authority to carry out any object not prohibited by the law of the Cayman Islands.

Ordinary Shares. Our ordinary shares are issued in registered form and are issued when registered in our register of shareholders. We may not issue shares to bearer. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their shares. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of our Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share shall entitle the holder thereof to one vote on all matters subject to vote at our general meetings, and each Class B ordinary share shall entitle the holder thereof to ten votes on all matters subject to vote at our general meetings.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the option of the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares in any event. Upon any sale, transfer, assignment or disposition of any Class B ordinary shares by their holder or upon a change of ultimate beneficial ownership of any Class B ordinary shares to any person other than our founder or an affiliate controlled by our founder, each such Class B ordinary share shall be automatically and immediately converted into one of Class A ordinary share.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors. In addition, our shareholders may declare dividends by ordinary resolution, but no dividend shall exceed the amount recommended by our directors. Our amended and restated memorandum and articles of association provide that the directors may, before recommending or declaring any dividend, set aside out of the funds legally available for distribution such sums as they think proper as a reserve or reserves which shall, in the absolute discretion of the directors, be applicable for meeting contingencies or for equalizing dividends or for any other purpose to which those funds may be properly applied. Under the laws of the Cayman Islands, our company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is paid.

Voting Rights. Holders of our Class A ordinary shares and our Class B ordinary shares shall, at all times, vote together as one class on all matters submitted to a vote by our shareholders at any general meeting of our company. Each Class A ordinary share shall be entitled to one vote, and each Class B ordinary share shall be entitled to ten votes, on all matters subject to a vote on a poll at general meetings of our company. Voting at any shareholders' meeting is by show of hands unless a poll is demanded (before or on the declaration of the result of the show of hands). A poll may be demanded by the chairman of such meeting or any one or more shareholders who together hold not less than 10% of the votes attaching to the total ordinary shares which are present in person or by proxy at the meeting.

An ordinary resolution to be passed at a meeting by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast at a meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the outstanding ordinary shares at a meeting. A special resolution will be required for important matters such as a change of name or making changes to our memorandum and articles of association. Holders of the ordinary shares may, among other things, divide or combine their shares by ordinary resolution.

General Meetings of Shareholders. As a Cayman Islands exempted company, we are not obliged by the Companies Act to call shareholders' annual general meetings. Our memorandum and articles of association provide that we may (but are not obliged to) in each year hold a general meeting as our annual general meeting in which case we shall specify the meeting as such in the notices calling it, and the annual general meeting shall be held at such time and place as may be determined by our directors.

Shareholders' general meetings may be convened by the chairman of our board of directors or a majority of our board of directors. Advance notice of at least ten calendar days is required for the convening of our annual general shareholders' meeting (if any) and any other general meeting of our shareholders. A quorum required for any general meeting of shareholders consists of at least one shareholder present or by proxy, representing not less than one-third of all votes attaching to all of our shares in issue and entitled to vote.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's articles of association. Our memorandum and articles of association provide that upon the requisition of shareholders holding at the date of deposit of the requisition shares which carry in aggregate not less than one-third of all votes attaching to all issued and outstanding shares of our company that as at the date of the deposit carry the right to vote at general meetings, our board will convene an extraordinary general meeting and put the resolutions so requisitioned to a vote at such meeting. However, our memorandum and articles of association do not provide our shareholders with any right to put any proposals before annual general meetings or extraordinary general meetings not called by such shareholders.

Transfer of Ordinary Shares. Subject to the restrictions set out below, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our board of directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of ordinary shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; and
- a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within three calendar months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, after compliance with any notice required of the Nasdaq Global Market, be suspended and the register closed at such times and for such periods as our board of directors may, in their absolute discretion, from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 calendar days in any calendar year.

Liquidation. On the winding up of our company, if the assets available for distribution amongst our shareholders shall be more than sufficient to repay the whole of the share capital at the commencement of the winding up, the surplus shall be distributed amongst our shareholders in proportion to the par value of the shares held by them at the commencement of the winding up, subject to a deduction from those shares in respect of which there are monies due, of all monies payable to our company for unpaid calls or otherwise. If our assets available for distribution are insufficient to repay the whole of the share capital, the assets will be distributed so that, as nearly as may be, the losses are borne by our shareholders in proportion to the par value of the shares held by them.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid are subject to forfeiture.

Redemption, Repurchase and Surrender of Shares. We may issue shares on terms that such shares are subject to redemption, at our option or at the option of the holders of these shares, on such terms and in such manner as may be determined, before the issue of such shares, by our board of directors or by a special resolution of our shareholders. Our Company may also repurchase any of our shares on such terms and in such manner as have been approved by our board of directors or by an ordinary resolution of our shareholders. Under the Companies Act, the redemption or repurchase of any share may be paid out of our Company's profits or out of the proceeds of a new issue of shares made for the purpose of such redemption or repurchase, or out of capital (including share premium account and capital redemption reserve) if our company can, immediately following such payment, pay its debts as they fall due in the ordinary course of business. In addition, under the Companies Act no such share may be redeemed or repurchased (a) unless it is fully paid up, (b) if such redemption or repurchase would result in there being no shares outstanding or (c) if the company has commenced liquidation. In addition, our company may accept the surrender of any fully paid share for no consideration.

Variations of Rights of Shares. If at any time, our share capital is divided into different classes of shares, the rights attached to any class of shares (unless otherwise subject to any rights or restrictions for the time being attached to any class), may only be materially adversely varied with the consent in writing of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the shares of that class, be deemed to be materially adversely varied by, *inter alia*, the creation or issue of further shares ranking *pari passu* with or subsequent to such existing class of shares or the redemption or purchase of any shares of any class by our company. Further, the rights the holders of shares shall not be deemed to be materially adversely varied by the creation or issue of shares with preferred or other rights including, without limitation, the creation of shares with enhanced or weighted voting rights.

Issuance of Additional Shares. Our memorandum and articles of association authorize our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our memorandum and articles of association also authorize our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.
- Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. Issuance of these shares may dilute the voting power of holders of ordinary shares.

Inspection of Books and Records. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records (except for the memorandum and articles of association, our register of mortgages and charges and special resolutions of our shareholders). However, we will provide our shareholders with annual audited financial statements. See “Where You Can Find Additional Information.”

Anti-Takeover Provisions. Some provisions of our memorandum and articles of association may discourage, delay or prevent a change of control of our company or management that shareholders may consider favorable, including provisions that:

- authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders; and
- limit the ability of shareholders to requisition and convene general meetings of shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our memorandum and articles of association for a proper purpose and for what they believe in good faith to be in the best interests of our company.

Exempted Company. We are an exempted company with limited liability under the Companies Act. The Companies Act distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except that an exempted company:

- does not have to file an annual return of its shareholders with the Registrar of Companies;

- is not required to open its register of members for inspection;
- does not have to hold an annual general meeting;
- may issue shares with no par value;
- may obtain an undertaking against the imposition of any future taxation (such undertakings are given for a period of up to 30 years);
- may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- may register as a limited duration company; and
- may register as a segregated portfolio company.

“Limited liability” means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company (except in exceptional circumstances, such as involving fraud, the establishment of an agency relationship or an illegal or improper purpose or other circumstances in which a court may be prepared to pierce or lift the corporate veil).

Differences in Corporate Law

The Companies Act is derived, to a large extent, from the older Companies Acts of England but does not follow recent English statutory enactments and accordingly there are significant differences between the Companies Act and the current Companies Act of England. In addition, the Companies Act differs from laws applicable to U.S. corporations and their shareholders. Set forth below is a summary of certain significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (i) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (ii) a “consolidation” means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose, a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provided that the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by (a) 75% in value of the shareholders or class of shareholders, as the case may be, or (b) a majority in number representing 75% in value of the creditors or each class of creditors, as the case may be, with whom the arrangement is to be made, that are, in each case, present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted, a dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and

- those who control the company are perpetrating a “fraud on the minority.”

Indemnification of Directors and Executive Officers and Limitation of Liability. Cayman Islands law does not limit the extent to which a company’s memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our memorandum and articles of association provide that we shall indemnify our officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained by such directors or officer, other than by reason of such person’s dishonesty, wilful default or fraud, in or about the conduct of our company’s business or affairs (including as a result of any mistake of judgment) or in the execution or discharge of his duties, powers, authorities or discretions, including without prejudice to the generality of the foregoing, any costs, expenses, losses or liabilities incurred by such director or officer in defending (whether successfully or otherwise) any civil proceedings concerning our company or its affairs in any court whether in the Cayman Islands or elsewhere. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation.

In addition, we have entered into indemnification agreements with our directors and executive officers that provide such persons with additional indemnification beyond that provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Directors’ Fiduciary Duties. Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, the director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party, and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Shareholder Action by Written Resolution. Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our articles of association provide that our shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

Shareholder Proposals. Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

The Companies Act provides shareholders with only limited rights to requisition a general meeting, and does not provide shareholders with any right to put any proposal before a general meeting. However, these rights may be provided in a company's memorandum and articles of association. Our memorandum and articles of association allow our shareholders holding in aggregate not less than one-third of all votes attaching to the issued and outstanding shares of our company entitled to vote at general meetings to requisition an extraordinary general meeting of our shareholders, in which case our board is obliged to convene an extraordinary general meeting and to put the resolutions so requisitioned to a vote at such meeting. Other than this right to requisition a shareholders' meeting, our memorandum and articles of association do not provide our shareholders with any other right to put proposals before annual general meetings or extraordinary general meetings. As an exempted Cayman Islands company, we may but are not obliged by law to call shareholders' annual general meetings.

Cumulative Voting. Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands, but our articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

Removal of Directors. Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our articles of association, directors may be removed with or without cause, by an ordinary resolution of our shareholders. In addition, a director's office shall be vacated if the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) is found to be or becomes of unsound mind or dies; (iii) resigns his office by notice in writing to the company; (iv) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated; or (v) is removed from office pursuant to any other provisions of our memorandum and articles of association.

Transactions with Interested Shareholders. The Delaware General Corporation Law contains a business combination statute applicable to Delaware corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting share within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Restructuring. A company may present a petition to the Grand Court of the Cayman Islands for the appointment of a restructuring officer on the grounds that the company:

- (a) is or is likely to become unable to pay its debts; and
- (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring.

The Grand Court may, among other things, make an order appointing a restructuring officer upon hearing of such petition, with such powers and to carry out such functions as the court may order. At any time (i) after the presentation of a petition for the appointment of a restructuring officer but before an order for the appointment of a restructuring officer has been made, and (ii) when an order for the appointment of a restructuring officer is made, until such order has been discharged, no suit, action or other proceedings (other than criminal proceedings) shall be proceeded with or commenced against the company, no resolution to wind up the company shall be passed, and no winding up petition may be presented against the company, except with the leave of the court. However, notwithstanding the presentation of a petition for the appointment of a restructuring officer or the appointment of a restructuring officer, a creditor who has security over the whole or part of the assets of the company is entitled to enforce the security without the leave of the court and without reference to the restructuring officer appointed.

Dissolution; Winding up. Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its members or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Act and our articles of association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

Variation of Rights of Shares. Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class with the written consent of the holders of two-thirds of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Amendment of Governing Documents. Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under the Companies Act and our memorandum and articles of association, our memorandum and articles of association may only be amended by a special resolution of our shareholders.

Rights of Non-resident or Foreign Shareholders. There are no limitations imposed by our memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our memorandum and articles of association that require our company to disclose shareholder ownership above any particular ownership threshold.

C. Material Contracts

Other than in the ordinary course of business and other than those described in "Item 4. Information on the Company" or "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" or elsewhere in this annual report, we have not entered into any material contract during the two years immediately preceding the date of this annual report.

D. Exchange Controls

See “Item 4. Information on the Company—B. Business Overview—PRC Regulation—Foreign Exchange.”

E. Taxation

The following summary of the material Cayman Islands, PRC and U.S. federal income tax consequences of an investment in the ADSs or our Class A ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in the ADSs or our Class A ordinary shares, such as the tax consequences under U.S. state and local tax laws or under the tax laws of jurisdictions other than the Cayman Islands, PRC and the United States. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law, and to the extent it relates to summary or description of PRC tax law, it represents the opinion of AllBright Law Offices, our counsel as to PRC law.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our ordinary shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares, nor will gains derived from the disposal of our ordinary shares be subject to Cayman Islands income or corporation tax.

PRC Taxation

Under the PRC Enterprise Income Tax Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax at the rate of 25% on its global income. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control over and overall management of the business, productions, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreigners, the criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

We believe that EHang is not a PRC resident enterprise for PRC tax purposes. EHang is not controlled by a PRC enterprise or PRC enterprise group and we do not believe that EHang meets all of the conditions above. EHang is a company incorporated outside the PRC. As a holding company, its key assets are its ownership interests in its subsidiaries, and its key assets are located, and its records (including the resolutions of its board of directors and the resolutions of its shareholders) are maintained, outside the PRC. For the same reasons, we believe our other entities outside of China are not PRC resident enterprises either. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body.” There can be no assurance that the PRC government will ultimately take a view that is consistent with us.

If the PRC tax authorities determine that EHang is a PRC resident enterprise for enterprise income tax purposes, we may be required to withhold a 10% withholding tax from dividends we pay to our shareholders that are non-resident enterprises, including the holders of the ADSs. In addition, non-resident enterprise shareholders (including the ADS holders) may be subject to a 10% PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is treated as sourced from within the PRC. It is unclear whether our non-PRC individual shareholders (including the ADS holders) would be subject to any PRC tax on dividends or gains obtained by such non-PRC individual shareholders in the event we are determined to be a PRC resident enterprise. If any PRC tax were to apply to such dividends or gains, it would generally apply at a rate of 20% unless a reduced rate is available under an applicable tax treaty. It is also unclear whether non-PRC shareholders of EHang would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that EHang is treated as a PRC resident enterprise. Pursuant to the EIT Law and its implementation rules, if a non-resident enterprise has not set up an organization or establishment in China, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, it will be subject to a withholding tax on its PRC-sourced income at a rate of 10%. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the tax rate in respect to dividends paid by a PRC enterprise to a Hong Kong enterprise is reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or SAT Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to enjoy the reduced tax rate: (i) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (ii) it must have directly owned such percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. Furthermore, the Administrative Measures for Non-Resident Enterprises to Enjoy Treatments under Tax Treaties (For Trial Implementation), which became effective in October 2009, require that non-resident enterprises must obtain approval from the relevant tax authority in order to enjoy the reduced tax rate. There are also other conditions for enjoying the reduced tax rate according to other relevant tax rules and regulations. Accordingly, our subsidiary may be able to enjoy the 5% tax rate for the dividends it receives from its PRC incorporated subsidiaries if they satisfy the conditions prescribed under SAT Circular 81 and other relevant tax rules and regulations and obtain the approvals as required. However, according to SAT Circular 81, if the relevant tax authorities determine our transactions or arrangements are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable tax rate on dividends in the future.

Provided that our Cayman Islands holding company, EHang, is not deemed to be a PRC resident enterprise, holders of the ADSs and ordinary shares who are not PRC residents will not be subject to PRC income tax on dividends distributed by us or gains realized from the sale or other disposition of our shares or ADSs. SAT Public Notice 7 further clarifies that, if a non-resident enterprise derives income by acquiring and selling shares in an offshore listed enterprise in the public market, such income will not be subject to PRC tax. However, there is uncertainty as to the application of SAT Bulletin 37 and SAT Public Notice 7, we and our non-PRC resident investors may be at risk of being required to file a return and being taxed under SAT Bulletin 37 and SAT Public Notice 7 and we may be required to expend valuable resources to comply with SAT Bulletin 37 and SAT Public Notice 7 or to establish that we should not be taxed under SAT Bulletin 37 and SAT Public Notice 7. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—We face uncertainty with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.”

U.S. Federal Income Taxation

The following discussion is a summary of certain material U.S. federal income tax considerations generally applicable to the ownership and disposition of the ADSs or ordinary shares by a U.S. Holder (as defined below) that holds the ADSs or ordinary shares as “capital assets” (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. This discussion is based upon existing U.S. federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. No ruling has been sought from the Internal Revenue Service, the IRS, with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This discussion, moreover, does not address the U.S. federal estate, gift, Medicare, and alternative minimum tax considerations, any election to apply Section 1400Z-2 of the Code to gains recognized with respect to sales or other dispositions of the ADSs or ordinary shares, special accounting rules under Section 451(b) of the Code, or any state, local or non-U.S. tax considerations, relating to the ownership or disposition of the ADSs or ordinary shares. The following summary also does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- banks and other financial institutions;

- insurance companies;
- pension plans;
- cooperatives;
- regulated investment companies;
- real estate investment trusts;
- broker-dealers;
- dealers or traders that elect to use a mark-to-market method of accounting;
- certain former U.S. citizens or long-term residents;
- tax-exempt entities (including private foundations);
- governmental organizations;
- investors who acquire their ADSs or ordinary shares pursuant to any employee share option or otherwise as compensation;
- investors that will hold their ADSs or ordinary shares as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for U.S. federal income tax purposes;
- investors that have a functional currency other than the U.S. dollar;
- investors that actually or constructively own 10% or more of our stock (by vote or value); or
- partnerships or other entities taxable as partnerships for U.S. federal income tax purposes, or persons holding ADSs or ordinary shares through such entities,
- all of whom may be subject to tax rules that differ significantly from those discussed below.

Each U.S. Holder is urged to consult its tax advisor regarding the U.S. federal, state and local and non-U.S. tax considerations of owning and disposing of the ADSs or ordinary shares in its particular circumstances.

General

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of the ADSs or ordinary shares that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created in or organized under the law of the United States or any state thereof or the District of Columbia;
- an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (A) the administration of which is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust or (B) that has otherwise validly elected to be treated as a U.S. person under the Code.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of ADSs or ordinary shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding the ADSs or ordinary shares and their partners are urged to consult their tax advisors regarding an investment in the ADSs or ordinary shares.

For U.S. federal income tax purposes, it is generally expected that a U.S. Holder of ADSs will be treated as the beneficial owner of the underlying shares represented by the ADSs. The remainder of this discussion assumes that a U.S. Holder of the ADSs will be treated in this manner. Accordingly, deposits or withdrawals of ordinary shares for ADSs will generally not be subject to U.S. federal income tax. The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between a U.S. Holder of an ADS and the issuer of the underlying share may be taking actions inconsistent with the beneficial ownership of the underlying share. Accordingly, the creditability of foreign taxes, if any, could be affected by actions taken by such intermediaries if, as a result of such actions, the U.S. Holder of the ADS is not properly treated as the beneficial owner of the underlying share.

Dividends

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” distributions paid on the ADSs or ordinary shares out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, will generally be includible in the gross income of a U.S. Holder as dividend income on the day actually or constructively received by the U.S. Holder, in the case of ordinary shares, or by the depository, in the case of ADSs. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends received on the ADSs or ordinary shares will not be eligible for the dividends received deduction allowed to corporations in respect of dividends received from U.S. corporations. The amount of any dividend income paid in foreign currency will be the U.S. dollar amount calculated by reference to the spot rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars on such date. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the amount received. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be taxable at reduced rates. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of these reduced tax rates in their particular circumstances.

Dividends will generally be treated as income from foreign sources for United States foreign tax credit purposes and will generally constitute passive category income. In the event that we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, a U.S. Holder may be subject to PRC withholding taxes on dividends paid on the ADSs or ordinary shares (see “Item 10. Additional Information—E. Taxation—PRC Taxation”). For U.S. federal income tax purposes, the amount of the dividend income will include amounts withheld in respect of PRC withholding tax, if any.

Depending on the U.S. Holder’s individual facts and circumstances, a U.S. Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit not in excess of any applicable treaty rate in respect of any foreign withholding taxes imposed on dividends received on the ADSs or ordinary shares. A U.S. Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex and their outcome depends in large part on the U.S. Holder’s individual facts and circumstances. Accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale or Other Disposition

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” a U.S. Holder will generally recognize gain or loss upon the sale or other disposition of the ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and such holder’s adjusted tax basis in such ADSs or ordinary shares. The gain or loss will generally be capital gain or loss. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year. The deductibility of a capital loss is subject to limitations.

Any such gain or loss that the U.S. Holder recognizes will generally be treated as U.S.-source income or loss for foreign tax credit limitation purposes, which will generally limit the availability of foreign tax credits. However, in the event we are deemed to be a PRC resident enterprise under the PRC Enterprise Income Tax Law, we may be eligible for the benefits of the United States-PRC income tax treaty. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, a U.S. Holder that is eligible for the benefits of the United States-PRC income tax treaty may elect to treat such gain as PRC source income. If a U.S. Holder is not eligible for the benefits of the United States-PRC income tax treaty or fails to make the election to treat any gain as foreign source, then such U.S. Holder may not be able to use the foreign tax credit arising from any PRC tax imposed on the disposition of the ADSs or ordinary shares unless such credit can be applied (subject to applicable limitations) against U.S. federal income tax due on other income derived from foreign sources in the same income category (generally, the passive category). Each U.S. Holder is advised to consult its tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of the ADSs or ordinary shares, including the availability of the foreign tax credit under its particular circumstances.

Passive Foreign Investment Company Rules

A non-U.S. corporation, such as our company, will be classified as a PFIC if, in the case of any particular taxable year, either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. For this purpose, cash and assets readily convertible into cash are generally categorized as passive assets and the company’s goodwill and other unbooked intangibles associated with active business activities may generally be classified as active assets. Passive income generally includes, among other things, dividends, interest, rents, royalties, and gains from the disposition of passive assets. For purposes of these rules, we will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which we own, directly or indirectly, more than 25% (by value) of the stock. Although the law in this regard is unclear, we intend to treat the VIE and the VIE’s subsidiaries as being owned by us for U.S. federal income tax purposes, not only because we have the power to direct the significant activities of such entities but also because we are entitled to substantially all of their economic benefits and, as a result, we consolidate their results of operations in our consolidated financial statements.

Based on our analysis of our activities as well as the composition of our income and valuation of our assets, including goodwill, we do not believe we were a PFIC for U.S. federal income tax purposes for the taxable year ended December 31, 2024. However, our PFIC status for any taxable year is a factual determination that can be made only after the end of such year, and will depend on the composition of our income and assets and the value of our assets for such year. Moreover, because we hold, and may continue to hold, a significant amount of cash, our PFIC status for any taxable year may depend on the value of our goodwill which may be determined, in part, by reference to the market price of the ADSs, which may change from time to time. In addition, it is not entirely clear how the contractual arrangements between us and the VIE will be treated for purposes of the PFIC rules. If it were determined that we are not the owner of the stock of the VIE for U.S. federal income tax purposes, we could be treated as a PFIC. In light of the foregoing, there can be no assurance that we were not, or will not be, a PFIC for any taxable year. Our U.S. counsel expresses no opinion with respect to our PFIC status for any taxable year.

If we are a PFIC for any taxable year during which a U.S. Holder holds the ADSs or ordinary shares, and unless the U.S. Holder makes a mark-to-market election (as described below), the U.S. Holder will generally be subject to special tax rules that have a penalizing effect, regardless of whether we remain a PFIC, on (i) any excess distribution that we make to the U.S. Holder (which generally means any distribution paid during a taxable year to a U.S. Holder that is greater than 125 percent of the average annual distributions paid in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the ADSs or ordinary shares), and (ii) any gain realized on the sale or other disposition of the ADSs or ordinary shares. Under the PFIC rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year and any taxable years in the U.S. Holder's holding period prior to the first taxable year in which we are classified as a PFIC (each, a "pre-PFIC year") will be taxable as ordinary income;
- the amount allocated to each prior taxable year, other than a pre-PFIC year, will be subject to tax at the highest tax rate in effect for individuals or corporations, as appropriate, for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed on the tax attributable to each prior taxable year, other than a pre-PFIC year.

If we are a PFIC for any taxable year during which a U.S. Holder holds the ADSs or ordinary shares and any of our subsidiaries, the VIE or any of the subsidiaries of the VIE is also a PFIC, such U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. U.S. Holders are urged to consult their tax advisors regarding the application of the PFIC rules to any of our subsidiaries, the VIE or any of the subsidiaries of the VIE.

As an alternative to the foregoing rules, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock. If we are a PFIC and a U.S. Holder makes this election with respect to the ADSs, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of the ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs and (ii) deduct as an ordinary loss in each such taxable year the excess, if any, of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the amount previously included in income as a result of the mark-to-market election. The U.S. Holder's adjusted tax basis in the ADSs would be adjusted to reflect any income or loss resulting from the mark-to-market election. If a U.S. Holder makes a mark-to-market election in respect of the ADSs and we cease to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that we are not classified as a PFIC. If a U.S. Holder makes a mark-to-market election, any gain such U.S. Holder recognizes upon the sale or other disposition of the ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election.

The mark-to-market election is available only for "marketable stock," which is stock that is regularly traded on a qualified exchange or other market as defined in applicable U.S. Treasury Regulations. The ADSs will be treated as "regularly traded" for any calendar year in which more than a *de minimis* quantity of the ADSs are traded on a qualified exchange for at least 15 days during each calendar quarter. The Nasdaq Global Market, where the ADSs are listed, is a qualified exchange for this purpose.

Because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such U.S. Holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide information necessary for U.S. Holders to make qualified electing fund elections which, if available, would result in tax treatment different from (and generally less adverse than) the general tax treatment for PFICs described above.

If a U.S. Holder owns the ADSs or ordinary shares during any taxable year that we are a PFIC, the holder must generally file an annual IRS Form 8621 or such other form as is required by the U.S. Treasury Department. Each U.S. Holder is advised to consult its tax advisor regarding the potential tax consequences to such holder if we were, are or become a PFIC, including the possibility of making a mark-to-market election.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other “exempt recipient” and (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder’s U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS. Certain U.S. Holders who are individuals (or certain specified entities) may be required to report information relating to their ownership of the ADSs or ordinary shares, unless the ADSs or ordinary shares are held in accounts at financial institutions (in which case the accounts may be reportable if maintained by non-U.S. financial institutions). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the ADSs or ordinary shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we are required to file reports, including annual reports on Form 20-F, and other information with the SEC. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of proxy statements to shareholders, and our executive officers, directors and principal shareholders are not subject to the insider short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act.

All information that we have filed with the SEC can be accessed through the SEC’s website at www.sec.gov. This information can also be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms.

We will furnish The Bank of New York Mellon, the depository of the ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders’ meeting and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders’ meeting received by the depository from us.

In accordance with Nasdaq Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at ir.ehang.com. In addition, we will provide hard copies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

As of December 31, 2024, a majority of our revenues and expenses were denominated in RMB. We expect that in the future a substantial portion of our revenues will be denominated in foreign currencies as our business and operations expand in overseas markets. As a result, we are exposed to increased foreign exchange risks for U.S. dollar and other currencies. Any significant revaluation of Renminbi against U.S. dollar may adversely affect our cash flow, earnings, and financial position, and the value of, and any dividends payable on, our ordinary shares and the ADSs. As of December 31, 2024, a 1% strengthening or weakening of Renminbi against U.S. dollars would have increased or decreased our net loss by 0.04%. See “Item 3. Key Information—D. Risk Factors—Risks Relating to Doing Business in China—Future movements in exchange rates between U.S. dollars and Renminbi may adversely affect the value of our ordinary shares or the ADSs.”

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would reduce the U.S. dollar amounts available to us.

Interest Rate Risk

We have not been exposed to material risks due to changes in interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

Our exposure to interest rate risk primarily relates to excess cash invested in short-term investments. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Expenses

The Bank of New York Mellon, as depositary, is responsible for registering and delivering American Depositary Shares, also referred to as ADSs. Each ADS represents two Class A ordinary shares (or a right to receive two Class A ordinary shares) deposited with The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each ADS also represents any other securities, cash or other property that may be held by the depositary. The deposited shares together with any other securities, cash or other property held by the depositary are referred to as the deposited securities. The depositary’s office at which the ADSs are being administered and its principal executive office are each located at 240 Greenwich Street, New York, New York 10286.

An ADS holder will be required to pay the following fees under the terms of the deposit agreement:

Persons depositing or withdrawing shares or ADS holders must pay	For
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none"> • Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property • Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$0.05 (or less) per ADS	<ul style="list-style-type: none"> • Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none"> • Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
\$.05 (or less) per ADS per calendar year	<ul style="list-style-type: none"> • Depositary services
Registration or transfer fees	<ul style="list-style-type: none"> • Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	<ul style="list-style-type: none"> • Cable (including SWIFT) and facsimile transmissions (when expressly provided in the deposit agreement) • Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none"> • As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	<ul style="list-style-type: none"> • As necessary

Fees and Other Payments Made by the Depositary to Us

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions. For the year ended December 31, 2024, we received nil in reimbursement from the depositary for our expenses incurred in connection with the establishment and maintenance of the ADS program.

Payment of Taxes

ADS holders will be responsible for any taxes or other governmental charges payable on the ADSs or on the deposited securities represented by any of the ADSs. The depositary may refuse to register any transfer of ADSs or allow holders thereof to withdraw the deposited securities represented by the ADSs until those taxes or other charges are paid. It may apply payments owed to ADS holders or sell deposited securities represented by the ADSs to pay any taxes owed and the ADS holders will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Ordinary Shares” for a description of the rights of securities holders, which remain unchanged.

Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this annual report.

Based upon that evaluation, our management has concluded that, as of December 31, 2024, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Our management evaluated the effectiveness of our internal control over financial reporting based on criteria established in the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2024.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Attestation Report of the Registered Public Accounting Firm

Our independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian LLP, has audited the effectiveness of our company’s internal control over financial reporting as of December 31, 2024 as stated in their report, which is included herein.

Changes in Internal Control over Financial Reporting

In connection with the audits of our consolidated financial statements as of and for the years ended December 31, 2017 and 2018, and the audit of our consolidated financial statements as of and for the year ended December 31, 2020, a material weakness related to the lack of financial reporting policies and procedures that are commensurate with U.S. GAAP and SEC reporting requirements and a material weakness related to lack of monitoring of the collection of accounts receivable on a timely basis were identified, respectively.

As defined in the standards established by the U.S. Public Company Accounting Oversight Board, a “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

During 2024, we implemented the following measures to improve our internal control over financial reporting to address the identified material weaknesses respectively:

- For our lack of financial reporting policies and procedures that are commensurate with U.S. GAAP and SEC reporting and compliance requirements, we (i) hired additional competent and qualified accounting and reporting personnel with appropriate knowledge and experience of U.S. GAAP and SEC financial reporting; (ii) provided continuous and appropriate training to the accounting and financial reporting personnel to equip them with sufficient knowledge and practical experience of preparing financial statements under U.S. GAAP and SEC reporting requirement; (iii) developed a set of accounting policies that support our accounting practices, and prepared accounting memorandum for complex accounting matters; and (iv) established clear roles and responsibilities to develop and implement formal comprehensive financial period-end closing policies and procedures to ensure all transactions are properly recorded and disclosed.
- For our lack of monitoring of the collection of accounts receivable on a timely basis, we (i) developed controls to monitor the implementation of accounts receivable collection policies on a regular basis; and (ii) strengthened sales department’s controls to formalize a credit risk analysis of each customer who was delinquent with accounts receivable, and have up-to-date information about the customer’s ability to pay on a timely basis, to support the finance department to identify characteristics risks promptly and assess current expected credit losses appropriately.

As of December 31, 2024, based on an assessment performed by our management on the performance of certain remediation measures mentioned above, we concluded that the material weaknesses relating to our lack of financial reporting policies and procedures that are commensurate with U.S. GAAP and SEC reporting requirements and lack of monitoring of the collection of accounts receivable on a timely basis have been remediated as of December 31, 2024.

Other than as described above, there were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Wing Kee Lau, an independent director (under the standards set forth in Nasdaq Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

Item 16B. Code of Ethics

Our board of directors has adopted a code of ethics that applies to all of the directors, officers and employees of us and our subsidiaries, whether they work for us on a full-time, part-time, consultative, or temporary basis. Certain provisions of the code apply specifically to our chief executive officer, chief financial officer, senior finance officer, controller, senior vice presidents, vice presidents and any other persons who perform similar functions for us. We have posted a copy of our code of business conduct and ethics on our website at ir.ehang.com.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP (“PwC”), our principal external auditors, for the periods indicated.

	<u>For the Year Ended December 31,</u>	
	2023	2024
	(RMB in thousands)	
Audit fees ⁽¹⁾	7,014	12,748

Note:

- (1) “Audit fees” means the aggregate fees billed in each of the fiscal years for professional services rendered by our principal external auditors for the audit of our annual consolidated financial statements and assistance with review of documents filed with the SEC and other statutory and regulatory filings.

The policy of our audit committee is to pre-approve all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In November 2024, our board of directors adopted a share repurchase program (the “2024 Share Repurchase Program”), under which we are authorized to repurchase through one or more transactions up to US\$30 million worth of our ADSs representing our Class A ordinary shares over the next 12 months. The 2024 Share Repurchase Program was announced on November 22, 2024.

The table below sets forth a summary of the ADSs repurchased by us in 2024 pursuant to the 2024 Share Repurchase Program:

Period	Total Number of ADSs Purchased	Average Price Paid Per ADS (US\$)	Total Number of ADSs Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan (US\$)
December	100,000	13.99	100,000	28,601,122
Total	100,000	13.99	100,000	28,601,122

Item 16F. Change in Registrant’s Certifying Accountant

None.

Item 16G. Corporate Governance

As a Cayman Islands company listed on the Nasdaq Global Market, we are subject to the Nasdaq Stock Market Rules corporate governance listing standards. However, Nasdaq Stock Market Rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from the Nasdaq Stock Market Rules. While we voluntarily follow most Nasdaq corporate governance rules, we may choose to take advantage of the following exemptions afforded to foreign private issuers:

- exemption from the requirement that a majority of our board of directors consists of independent directors;

- exemption from the requirement that each member of the compensation committee must be an independent director set forth in Nasdaq Rule 5605(d)(2)(A);
- exemption from the requirement that director nomination should be made by a vote in which only independent directors participate or by a nominations committee comprised solely of independent directors as set forth in Nasdaq Rule 5605(e)(1);
- exemption from the requirement to obtain shareholder approval for certain issuances of securities, including shareholder approval of stock option plans;
- exemption from the requirement that our board of directors shall have regularly scheduled meetings at which only independent directors are present as set forth in Nasdaq Rule 5605(b)(2); and
- exemption from the requirement that an annual shareholders meeting must be held no later than one year after the end of the company's fiscal year-end as set forth in Nasdaq Rule 5620(a).

We intend to follow our home country practices in lieu of the foregoing requirements, although (i) a majority of our board of directors consists of independent directors and (ii) each member of our compensation committee satisfies the independence requirements set forth in Nasdaq Rule 5605(d)(2)(A). We may also opt to rely on additional home country practice exemptions in the future. Although we may rely on home country corporate governance practices in lieu of certain of the rules in the Nasdaq Rule 5600 Series and Rule 5250(d), we must comply with Nasdaq's Notification of Noncompliance requirement (Rule 5625), the Voting Rights requirement (Rule 5640) and have an audit committee that satisfies Rule 5605(c)(3), consisting of committee members that meet the independence requirements of Rule 5605(c)(2)(A)(ii). Although we currently intend to comply with the Nasdaq corporate governance rules applicable other than as noted above, we may in the future decide to use the foreign private issuer exemption with respect to some or all the other Nasdaq corporate governance rules. As a result, our shareholders may be afforded less protection than they otherwise would under the Nasdaq corporate governance listing standards applicable to U.S. domestic issuers. We may utilize these exemptions for as long as we continue to qualify as a foreign private issuer.

We are also eligible to rely on exemptions afforded to controlled companies. A company of which more than 50% of the voting power is held by a single entity is considered a "controlled company" under the Nasdaq Stock Market Rules. A controlled company is not required to comply with the Nasdaq corporate governance rules requiring a board of directors to have a majority of independent directors, to have an independent compensation committee, and to have an independent nominations/corporate governance committee. We are a "controlled company" as defined under the Nasdaq Stock Market Rules, but we have no current intention to rely on the controlled company exemption.

Item 16H. Mine Safety Disclosure

Not applicable.

Item 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Item 16J. Insider Trading Policies

We have adopted an Insider Trading Policy (the “Insider Trading Policy”), which, among other things, governs the purchase, sale and other dispositions of our securities by our directors, executive officers and employees. Our Insider Trading Policy aims to promote compliance with applicable insider trading laws, rules and regulations, and the Nasdaq listing standards. A copy of our Insider Trading Policy is filed as Exhibit 11.2 to this annual report. In addition, it is the Company’s intent to comply with applicable laws and regulations relating to insider trading.

Item 16K. Cybersecurity

Risk Management and Strategy

We have implemented and maintained various information security processes designed to identify, assess and manage material risks from cybersecurity threats to our critical computer networks, third party hosted services, communications systems, hardware and software, and our critical data, including intellectual property, and confidential information that is proprietary, strategic or competitive in nature (“Information Systems and Data”).

Our IT department helps identify, assess and manage our cybersecurity threats and risks. Our IT department identifies and assesses risks from cybersecurity threats by monitoring and evaluating our threat environment using various methods including, for example, manual tools, automated tools, analyzing reports of threats and actors, conducting scans of the threat environment, evaluating our and our industry’s risk profile, evaluating threats reported to us, conducting threat assessments for internal and external threats, engaging third party threat assessments, etc.

Depending on the environment, we implement and maintain various technical, physical, and organizational measures, processes, standards and policies designed to manage and mitigate material risks from cybersecurity threats to our Information Systems and Data, including, for example, cybersecurity incident response policy, incident detection and response, vulnerability management policy, disaster recovery/business continuity plans, security standards, encryption of data, network security controls, data segregation, access controls, physical security, asset management, tracking and disposal, systems monitoring and employee training.

Our assessment and management of material risks from cybersecurity threats are integrated into our overall risk management processes. For example, (i) our IT department works with our management to prioritize our risk management processes and mitigate cybersecurity threats that are more likely to lead to a material impact to our business, and (ii) our senior management evaluates material risks from cybersecurity threats against our overall business objectives and reports to the audit committee of the board of directors, which evaluates our overall enterprise risk.

We use third-party service providers to assist us from time to time to identify, assess, and manage material risks from cybersecurity threats, including, for example, professional services firms including legal counsel, cybersecurity software providers and managed cybersecurity service providers. We have a vendor management program to manage cybersecurity risks associated with our use of these providers. The program includes review of security assessment and imposition of information contractual obligations on the vendor. Depending on the nature of the services provided, the sensitivity of the Information Systems and Data at issue, and the identity of the provider, our vendor management process may involve different levels of assessment designed to help identify cybersecurity risks associated with a provider and impose contractual obligations related to cybersecurity on the provider.

For a description of the risks from cybersecurity threats that may materially affect our company and how they may do so, see our risk factors under “Part I. Item 3D. Risk Factors in this Annual Report” on Form 20-F, including the risk factors headed “Any significant cybersecurity incident or disruption to our operating systems, command-and-control centers, or information systems and infrastructure could subject us to significant reputational, financial, legal and operational consequences,” and “Failure to safeguard personal information could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.”

Governance

Our board of directors addresses our company’s cybersecurity risk management as part of its general oversight function. The audit committee of the board of directors is responsible for overseeing our cybersecurity risk management processes, including oversight and mitigation of risks from cybersecurity threats.

Our cybersecurity risk assessment and management processes are implemented and maintained by certain of our management, including our chief executive officer, our chief financial officer, our vice president of software department and our senior network engineer. With the experience of setting up servers and firewalls, our senior network engineer is responsible for hiring appropriate personnel, helping to integrate cybersecurity risk considerations into our overall risk management strategy, communicating key priorities to relevant personnel, and overseeing the operation of our cybersecurity risks and cloud services. With the experience of software programming, our vice president of software department is mainly responsible for supervising our IT and software departments, including helping prepare for cybersecurity incidents, approving cybersecurity processes, and reviewing security assessments and other security-related reports. Our vice president of software department reports to our chief executive officer and our chief executive officer is responsible for approving budgets.

Our cybersecurity incident response and vulnerability management policies are designed to escalate certain cybersecurity incidents to cybersecurity incident management team (the “CSI management team”) depending on the circumstances, including our chief operating officers, chief financial officer and in-house general counsel. The CSI management team works with our company’s senior management team to help our company mitigate and remediate cybersecurity incidents of which they are notified. In addition, our company’s cybersecurity incident response and vulnerability management policies include reporting to the audit committee of the board of directors for certain cybersecurity incidents. The audit committee receives periodic reports from our CSI management team concerning our company’s significant cybersecurity threats and risk and the processes our company has implemented to address them. The audit committee also has access to various reports, summaries or presentations related to cybersecurity threats, risk and mitigation.

PART III

Item 17. Financial Statements

We have elected to provide financial statements pursuant to Item 18.

Item 18. Financial Statements

Our consolidated financial statements are included at the end of this annual report.

Item 19. Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1	<u>Fifth Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated herein by reference to Exhibit 3.2 to our registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
2.1	<u>Registrant's Specimen American Depositary Receipt (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-237769) filed with the SEC on April 21, 2020)</u>
2.2	<u>Registrant's Specimen Certificate for Class A ordinary shares (incorporated herein by reference to Exhibit 4.2 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
2.3	<u>Deposit Agreement among the Registrant, the depository and the owners and holders of American Depositary Shares, dated as of December 11, 2019 (incorporated herein by reference to Exhibit 4.3 to the registration statement on Form S-8 (File No. 333-237769) filed with the SEC on April 21, 2020)</u>
2.4	<u>Second Amended and Restated Shareholders' Agreement, dated as of December 27, 2016, by and among the Registrant and other parties thereto (incorporated herein by reference to Exhibit 4.4 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
2.5	<u>Description of Securities (incorporated herein by reference to Exhibit 2.5 of our Annual Report on Form 20-F for the year ended December 31, 2019 (File No. 001-39151) filed with the SEC on April 20, 2020)</u>
4.1	<u>2015 Share Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
4.2	<u>2019 Share Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
4.3	<u>2023 Share Incentive Plan (incorporated herein by reference to Exhibit 4.1 to the current report on Form 6-K (File No. 001-39151) filed with the SEC on December 22, 2023)</u>
4.4	<u>Form of Indemnification Agreement between the Registrant and its director and executive officers (incorporated herein by reference to Exhibit 10.3 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
4.5	<u>Form of Employment Agreement between the Registrant and its executive officers (incorporated herein by reference to Exhibit 10.4 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
4.6	<u>English translation of the Shareholders Voting Proxy Agreement and Power of Attorney among the WFOE, the VIE and shareholders of the VIE dated October 21, 2020 (incorporated herein by reference to Exhibit 4.5 of our Annual Report on Form 20-F for the year ended December 31, 2020 (File No. 001-39151) filed with the SEC on June 15, 2021)</u>
4.7	<u>English translation of the Share Pledge Agreements among the WFOE and shareholders of the VIE dated October 21, 2020 (incorporated herein by reference to Exhibit 4.6 of our Annual Report on Form 20-F for the year ended December 31, 2020 (File No. 001-39151) filed with the SEC on June 15, 2021)</u>
4.8	<u>English translation of the Exclusive Consulting and Service Agreement and the Exclusive Services Agreement between the WFOE and the VIE dated January 29, 2016 (incorporated herein by reference to Exhibit 10.9 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
4.9	<u>English translation of the Amendment to Exclusive Consulting and Service Agreement between the WFOE and the VIE dated November 30, 2018 (incorporated herein by reference to Exhibit 10.10 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)</u>
4.10	<u>English translation of the Exclusive Option Agreement among the WFOE, the VIE and shareholders of the VIE dated October 21, 2020 (incorporated herein by reference to Exhibit 4.9 of our Annual Report on Form 20-F for the year ended December 31, 2020 (File No. 001-39151) filed with the SEC on June 15, 2021)</u>

Exhibit Number	Description of Document
4.11	English translation of the Special Agreement on the Capital Increase of the VIE among the WFOE, the VIE and shareholders of the VIE dated February 22, 2019 (incorporated herein by reference to Exhibit 10.14 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)
4.12	English translation of the Amendments to the Special Agreement on the Capital Increase of the VIE among the WFOE, the VIE, Huazhi Hu, Yifang Xiong and shareholders of the VIE dated September 7, 2020 and October 21, 2020, respectively (incorporated herein by reference to Exhibit 4.11 of our Annual Report on Form 20-F for the year ended December 31, 2020 (File No. 001-39151) filed with the SEC on June 15, 2021)
4.14	English Translation of the Subscription Agreement, dated as of December 21, 2022, between the Registrant and Qingdao Ocean Investment Group Co., Ltd. (incorporated herein by reference to Exhibit 4.13 of our Annual Report on Form 20-F for the year ended December 31, 2022 (File No. 001- 39151) filed with the SEC on April 27, 2023)
4.15	Subscription Agreement, dated as of July 11, 2023, between the Registrant and Rich Ning Inc. (incorporated herein by reference to Exhibit 4.15 of our Annual Report on Form 20-F for the year ended December 31, 2023 (File No. 001- 39151) filed with the SEC on April 15, 2024)
4.16	Subscription Agreement, dated as of July 11, 2023, between the Registrant and Gamma Financial Solutions Limited (incorporated herein by reference to Exhibit 4.16 of our Annual Report on Form 20-F for the year ended December 31, 2023 (File No. 001- 39151) filed with the SEC on April 15, 2024)
4.17	Subscription Agreement, dated as of July 11, 2023, between the Registrant and Lee Soo Man (incorporated herein by reference to Exhibit 4.17 of our Annual Report on Form 20-F for the year ended December 31, 2023 (File No. 001- 39151) filed with the SEC on April 15, 2024)
4.18	At Market Issuance Sales Agreement, dated as of April 19, 2024, between EHang Holdings Limited and China Renaissance Securities (Hong Kong) Limited (incorporated herein by reference to Exhibit 1.2 to the registration statement on Form F—3 (File No. 333-278830) filed with the SEC on April 19, 2024)
4.19*#	English Translation of the Subscription Agreement, dated as of November 14, 2024, between the Registrant and Enpower Electric Co., Ltd.
4.20*#	Form of Subscription Agreement, dated as of November 7, 2024, between the Registrant and an investor
8.1*	List of Principal Subsidiaries and Consolidated Affiliated Entities
11.1	Code of Business Conduct and Ethics of the Registrant (incorporated herein by reference to Exhibit 99.1 to the registration statement on Form F-1 (File No. 333-234411) filed with the SEC on October 31, 2019)
11.2*	Insider Trading Policy
12.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of PricewaterhouseCoopers Zhong Tian LLP
15.2*	Consent of AllBright Law Offices
15.3*	Consent of Maples and Calder (Hong Kong) LLP
97.1	Incentive Compensation Recoupment Policy (incorporated herein by reference to Exhibit 97.1 of our Annual Report on Form 20-F for the year ended December 31, 2023 (File No. 001- 39151) filed with the SEC on April 15, 2024)
101.INS*	Inline XBRL Instance Document (the cover page XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit Number	Description of Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Exhibit 101 Inline XBRL document set)

* Filed herewith

** Furnished herewith

Certain personally identifiable information in this exhibit has been omitted pursuant to Item 601(a)(6) of Regulation S-K, and certain information has been omitted on the basis that the Company customarily and actually treats that information as private or confidential and the omitted information is not material, pursuant to Item 601(b)(10) of Regulation S-K.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

EHang Holdings Limited

By: /s/ Huazhi Hu
Name: Huazhi Hu
Title: Chairman of the Board of Directors and Chief
Executive Officer

Date: April 15, 2025

EHANG HOLDINGS LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE(S)
<u>Report of Independent Registered Public Accounting Firm (PCAOB ID 1424)</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2023 and 2024</u>	F-5 - F-7
<u>Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2022, 2023 and 2024</u>	F-8 - F-9
<u>Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2022, 2023 and 2024</u>	F-10 - F-12
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2022, 2023 and 2024</u>	F-13 - F-15
<u>Notes to the Consolidated Financial Statements</u>	F-16 - F-67

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of EHang Holdings Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of EHang Holdings Limited and its subsidiaries (the “Company”) as of December 31, 2024 and 2023, and the related consolidated statements of comprehensive loss, of changes in shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2024, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, 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. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for current expected credit loss in 2023.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition - air mobility solutions related to products

As described in Notes 2 and 14 to the consolidated financial statements, the Company's air mobility solutions revenue related to products was RMB439.5 million. Revenues from air mobility solutions are primarily product revenues from the sales of passenger-grade UAVs and its software. As the UAVs and software are highly interdependent, the entire bundle of promised goods is considered one performance obligation within the context of the contract. The single performance obligation is satisfied at a point in time. The Company relies on customer's acknowledgement of receipt and goods delivery notes when the goods are shipped to domestic customers and proof of shipments with oversea customers to determine when performance obligations are satisfied. When goods are shipped to domestic customers, who acknowledged the receipt of goods, or shipped to oversea customers with "FOB Shipping Point", control of the goods is transferred to the customer if there are no remaining performance obligations. The Company recognizes the revenue once control passes to the customer. The transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimation into the determination of the transaction price.

The principal considerations for our determination that performing procedures relating to air mobility solutions revenue recognition is a critical audit matter is a high degree of auditor effort in performing procedures related to the revenue recognition.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the revenue recognition process, including controls over the recording of air mobility solutions revenue. These procedures also included, among others (i) testing revenue recognized for a sample of revenue transactions by obtaining and inspecting source documents, such as sales contracts, goods delivery notes, acknowledgement receipts from customers, or proof of shipments; (ii) obtaining and inspecting a sample of cash receipts; (iii) confirming a sample of outstanding accounts receivable as of December 31, 2024; (iv) performing site visits and interviews with certain selected customers to corroborate with the Company's records of products delivered.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shenzhen, the People's Republic of China
April 15, 2025

We have served as the Company's auditor since 2021.

EHANG HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Note	As of December 31,		
		2023	2024	
		RMB	RMB	US\$ Note 2(e)
ASSETS				
Current assets				
Cash and cash equivalents	2(f)	228,250	610,877	83,690
Short-term deposits	2(g)	14,397	—	—
Short-term investments	4	57,494	513,683	70,374
Restricted short-term deposits	2(h)	33,942	30,295	4,150
Accounts receivable, net of allowance of RMB131,826 and RMB103,340 (US\$14,158) as of December 31, 2023 and 2024, respectively	5	34,786	58,180	7,971
Inventories	6	59,488	75,687	10,369
Prepayments and other current assets	7	24,691	68,298	9,356
Total current assets		453,048	1,357,020	185,910
Non-current assets				
Property and equipment, net	8	44,623	60,224	8,251
Right-of-use assets, net	2(y)	74,528	128,433	17,595
Intangible assets, net		2,426	2,617	359
Long-term loans receivable	9	4,215	—	—
Long-term investments	10	18,369	33,764	4,626
Other non-current assets		1,436	2,440	334
Total non-current assets		145,597	227,478	31,165
Total assets		598,645	1,584,498	217,075

EHANG HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Note	As of December 31,		
		2023 RMB	2024 RMB	US\$ Note 2(e)
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities (including current liabilities of the consolidated variable interest entity and its subsidiaries (“VIEs”) without recourse to Ehang Holdings Limited (the “Company”) of RMB30,220 and RMB38,837 (US\$5,321) as of December 31, 2023 and 2024, respectively)				
Short-term bank loans	12	69,798	64,250	8,802
Accounts payable		35,101	127,446	17,460
Contract liabilities		37,169	62,561	8,571
Current portion of long-term bank loans	12	3,538	10,500	1,438
Mandatorily redeemable non-controlling interests	13	—	40,000	5,480
Accrued expenses and other liabilities	11	94,149	150,196	20,577
Current portion of lease liabilities	2(y)	5,595	12,527	1,716
Deferred income		1,549	1,504	206
Deferred government subsidies		3,147	1,209	166
Income taxes payable		29	150	21
Total current liabilities		250,075	470,343	64,437
Non-current liabilities (including non-current liabilities of the VIEs without recourse to the Company of RMB3,146 and RMB7,588 (US\$1,040) as of December 31, 2023 and 2024, respectively)				
Long-term bank loans	12	9,308	20,500	2,808
Mandatorily redeemable non-controlling interests	13	40,000	—	—
Deferred tax liabilities	16	292	292	40
Unrecognized tax benefit	16	5,480	5,480	751
Lease liabilities	2(y)	75,308	125,719	17,223
Deferred income		1,486	—	—
Other non-current liabilities		2,477	6,350	870
Total non-current liabilities		134,351	158,341	21,692
Total liabilities		384,426	628,684	86,129
Commitments and Contingencies	23			

EHANG HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Note	As of December 31,		
		2023	2024	
		RMB	RMB	US\$ Note 2(e)
Shareholders' equity				
Class A ordinary shares (US\$0.0001 par value; 1,904,577,337 shares authorized, 88,006,101 shares issued and 87,544,585 shares outstanding as of December 31, 2023; 1,904,577,337 shares authorized, 106,532,825 shares issued and 104,828,035 shares outstanding as of December 31, 2024)	18	56	66	9
Class B ordinary shares (US\$0.0001 par value; 45,422,663 shares authorized, 39,026,560 shares issued and outstanding as of December 31, 2023 and 2024)	18	24	24	3
Additional paid-in capital		1,951,936	2,923,178	400,474
Treasury shares	18	—	(10,085)	(1,382)
Statutory reserves		1,239	1,772	243
Accumulated deficit		(1,754,542)	(1,984,851)	(271,923)
Accumulated other comprehensive income	18	15,079	25,539	3,499
Total EHang Holdings Limited shareholders' equity		213,792	955,643	130,923
Non-controlling interests		427	171	23
Total shareholders' equity		214,219	955,814	130,946
Total liabilities and shareholders' equity		598,645	1,584,498	217,075

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

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for per share data and per ADS data)

	Note	For the year ended December 31,			
		2022 RMB	2023 RMB	2024 RMB	US\$ Note 2(e)
Revenues					
Products (including related party revenues of RMB nil, RMB11,859 and RMB133 (US\$18) for the years ended December 31, 2022, 2023 and 2024)	14, 17	40,775	100,960	440,641	60,368
Services (including related party revenues of RMB nil, RMB nil and RMB1,225 (US\$168) for the years ended December 31, 2022, 2023 and 2024)	14, 17	3,542	16,466	15,511	2,125
Total revenues		44,317	117,426	456,152	62,493
Cost of revenues					
Products		(15,038)	(34,304)	(171,035)	(23,432)
Services		(60)	(7,811)	(5,171)	(708)
Total cost of revenues		(15,098)	(42,115)	(176,206)	(24,140)
Gross profit		29,219	75,311	279,946	38,353
Operating expenses					
Sales and marketing expenses		(53,116)	(60,389)	(131,027)	(17,951)
General and administrative expenses		(151,065)	(150,092)	(233,398)	(31,975)
Research and development expenses		(135,082)	(167,315)	(199,465)	(27,327)
Total operating expenses		(339,263)	(377,796)	(563,890)	(77,253)
Other operating income	2(z)	6,094	6,233	29,869	4,092
Operating loss		(303,950)	(296,252)	(254,075)	(34,808)
Other (expenses) income					
Interest and investment income		4,669	8,484	30,599	4,192
Interest expenses		(2,145)	(2,930)	(3,375)	(462)
Amortization of debt discounts		(1,674)	(12,023)	—	—
Foreign currency exchange (losses) gains, net		(1,488)	394	(1,188)	(163)
Other non-operating income		1,944	1,966	4,670	640
Other non-operating expenses		(26,804)	(214)	(1,924)	(264)
Total other (expenses) income		(25,498)	(4,323)	28,782	3,943
Loss before income tax and income (loss) from equity method investment		(329,448)	(300,575)	(225,293)	(30,865)
Income tax expenses	16	(79)	(206)	(386)	(53)
Loss before income (loss) from equity method investment		(329,527)	(300,781)	(225,679)	(30,918)
Income (loss) from equity method investment		196	(1,560)	(4,353)	(596)
Net loss		(329,331)	(302,341)	(230,032)	(31,514)

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for per share data and per ADS data)

	Note	For the year ended December 31,			
		2022 RMB	2023 RMB	2024 RMB	US\$ Note 2(e)
Net loss		(329,331)	(302,341)	(230,032)	(31,514)
Net loss attributable to non-controlling interests		1,110	641	256	35
Net loss attributable to EHang Holdings Limited’s ordinary shareholders	20	(328,221)	(301,700)	(229,776)	(31,479)
Net loss per ordinary share					
Basic and diluted	20	(2.86)	(2.48)	(1.71)	(0.23)
Net loss per ADS (2 ordinary shares equal to 1 ADS)					
Basic and diluted	20	(5.72)	(4.96)	(3.42)	(0.46)
Shares used in net loss per ordinary share computation (in thousands of shares)					
Basic and diluted	20	114,695	121,494	134,367	134,367
Other comprehensive income					
Foreign currency translation adjustments, net of nil tax		20,896	69	10,460	1,433
Total other comprehensive income, net of tax		20,896	69	10,460	1,433
Comprehensive loss		(308,435)	(302,272)	(219,572)	(30,081)
Comprehensive loss attributable to non-controlling interests		1,110	641	256	35
Comprehensive loss attributable to EHang Holdings Limited		(307,325)	(301,631)	(219,316)	(30,046)

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

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),
except for number of shares and per share data)

	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital RMB	Accumulated other comprehensive income RMB	Statutory reserves RMB	Accumulated deficit RMB	Total EHang Holdings Limited shareholders' equity RMB	Non-controlling interests RMB	Total shareholders' equity RMB
	Number of ordinary shares	Amount RMB	Number of ordinary shares	Amount RMB							
Balance as of December 31, 2021	74,309,007	50	40,136,560	25	1,459,374	(5,886)	1,191	(1,122,153)	332,601	1,445	334,046
Shares issued to depository bank	18	876,380	—	—	—	—	—	—	—	—	—
Issuance of ordinary shares for the vested restricted share units	18	2,595,750	—	—	—	—	—	—	—	—	—
Settlement of vested restricted share units with shares held by the depository bank	18	(590,750)	—	—	—	—	—	—	—	—	—
Class B ordinary shares converted to Class A ordinary shares	18	1,110,000	1	(1,110,000)	(1)	—	—	—	(328,221)	—	—
Net loss	—	—	—	—	—	—	—	—	(328,221)	(1,110)	(329,331)
Share based compensation	15	—	—	—	96,898	—	—	—	96,898	—	96,898
Clawback of shares under share incentive plan	—	—	—	—	(383)	—	—	—	(383)	—	(383)
Arrangement for employee stock withholding tax	18	—	—	—	(11,230)	—	—	—	(11,230)	—	(11,230)

Warrants arising from private placement	—	—	—	—	—	13,697	—	—	—	13,697
Issuance of a subsidiary's equity to a non-controlling interest holder	—	—	—	—	—	—	—	—	—	85
Other	—	—	—	—	—	—	—	—	—	—
comprehensive income	18	—	—	—	—	—	20,896	—	—	20,896

F- 10

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),
except for number of shares and per share data)

	Class A ordinary shares		Class B ordinary shares		Additional paid-in capital RMB	Accumulated other comprehensive (loss) income RMB	Statutory reserves RMB	Accumulated deficit RMB	Total EHang Holdings Limited shareholders' equity RMB	Non-controlling interests RMB	Total shareholders' equity RMB
	Number of ordinary shares	Amount RMB	Number of ordinary shares	Amount RMB							
Balance as of December 31, 2022	78,300,387	51	39,026,560	24	1,558,356	15,010	1,191	(1,450,374)	124,258	420	124,678
Balance as of December 31, 2022	78,300,387	51	39,026,560	24	1,558,356	15,010	1,191	(1,450,374)	124,258	420	124,678
Adoption of ASC Topic 326	2(K)	—	—	—	—	—	—	(2,420)	(2,420)	(2)	(2,422)
Balance as of January 1, 2023	78,300,387	51	39,026,560	24	1,558,356	15,010	1,191	(1,452,794)	121,838	418	122,256
Shares issued to depository bank	18	236,000	—	—	—	—	—	—	—	—	—
Issuance of Class A ordinary shares	18	7,870,938	5	—	242,399	—	—	—	242,404	—	242,404
Issuance of ordinary shares for the vested restricted share units	18	2,684,596	—	—	—	—	—	—	—	—	—
Settlement of vested restricted share units with shares held by the depository bank	18	(1,085,820)	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(301,700)	(301,700)	(641)	(302,341)
Share based compensation	15	—	—	—	151,485	—	—	—	151,485	—	151,485
Arrangement for employee stock withholding tax	18	—	—	—	7,795	—	—	—	7,795	—	7,795
Acquisition of non-controlling interests	19	—	—	—	(8,099)	—	—	—	(8,099)	650	(7,449)

Other comprehensive loss	18	—	—	—	—	—	69	—	69		
Appropriation of statutory reserve 2(ad)	—	—	—	—	—	—	48	(48)	—		
Balance as of December 31, 2023	88,006,101	56	39,026,560	24	1,951,936	15,079	1,239	(1,754,542)	213,792	427	214,219

F- 11

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),
except for number of shares and per share data)

	Class A ordinary shares		Class B ordinary shares		Total EHang Holdings Limited's Non-controlling shareholders' equity								
	Number of ordinary shares	Amount RMB	Number of ordinary shares	Amount RMB	Additional paid-in capital RMB	Treasury shares RMB	Accumulated other comprehensive income RMB	Statutory reserves RMB	Accumulated deficit RMB	shareholders' equity RMB	interest RMB	shareholders' equity RMB	
Balance as of December 31, 2023	88,006,101	56	39,026,560	24	1,951,936	—	15,079	1,239	(1,754,542)	213,792	427	214,219	
Shares issued to depository bank but not outstanding	18	1,568,490	—	—	—	—	—	—	—	—	—	—	
Issuance of Class A ordinary shares	18	12,559,844	10	—	693,586	—	—	—	—	693,596	—	693,596	
Issuance of ordinary shares for the vested restricted share units and vested share options	18	4,398,390	—	—	—	—	—	—	—	—	—	—	
Net loss	—	—	—	—	—	—	—	—	(229,776)	(229,776)	(256)	(230,032)	
Share based compensation	15	—	—	—	273,124	—	—	—	—	273,124	—	273,124	
Arrangement for employee stock withholding tax	18	—	—	—	4,532	—	—	—	—	4,532	—	4,532	
Share repurchase	18	—	—	—	—	(10,085)	—	—	—	(10,085)	—	(10,085)	
Other comprehensive loss	18	—	—	—	—	—	10,460	—	—	10,460	—	10,460	
Appropriation of statutory reserve	2(ad)	—	—	—	—	—	—	533	(533)	—	—	—	
Balance as of December 31, 2024	106,532,825	66	39,026,560	24	2,923,178	(10,085)	25,539	1,772	(1,984,851)	955,643	171	955,814	
Balance as of December 31, 2024 (US\$)	2(c)	106,532,825	9	39,026,560	3	400,474	(1,382)	3,499	243	(271,923)	130,923	23	130,946

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

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Note	For the years ended December 31,			
		2022	2023	2024	
		RMB	RMB	RMB	US\$
Note 2(e)					
CASH FLOWS FROM OPERATING ACTIVITIES					
Net loss		(329,331)	(302,341)	(230,032)	(31,514)
Adjustments to reconcile net loss to net cash (used in) generated from operating activities					
Depreciation of property and equipment	8	8,478	12,442	12,774	1,750
Amortization of intangible assets		439	787	922	126
Amortization of right-of-use assets		11,976	8,131	6,103	836
Share-based compensation	15	96,898	151,485	273,124	37,418
Clawback of shares under share incentive plan		(383)	—	—	—
(Gains) losses on disposal of property and equipment	2(n)	(103)	138	682	93
Amortization of debt discounts		1,674	12,023	—	—
Interest expenses		—	—	(707)	(97)
Interest and investment income		(3,131)	(3,361)	(11,103)	(1,521)
(Income) losses from equity method investment	10	(196)	1,560	4,353	596
Allowance for doubtful accounts/current expected credit losses		47,784	13,691	12,790	1,752
Write-downs of inventories	2(m)	956	460	921	126
Foreign currency exchange losses (gains)		1,488	(394)	49	7
Changes in operating assets and liabilities					
Accounts receivable		(10,072)	(20,523)	(31,284)	(4,286)
Inventories		(3,257)	7,816	(21,590)	(2,958)
Prepayments and other assets		(22,942)	10,728	(29,515)	(4,044)
Amounts due from a related party		1,360	—	1,195	164
Accounts payable		(10,104)	5,445	92,345	12,651
Contract liabilities		4,490	17,847	25,392	3,479
Accrued expenses and other liabilities		36,252	(192)	57,551	7,884
Lease liabilities		(8,783)	(3,708)	(2,665)	(365)
Deferred income		1,521	(1,464)	(1,531)	(210)
Deferred government subsidies		1,525	998	(1,936)	(265)
Income taxes payable		3	22	121	17
Net cash flow (used in) generated from operating activities		(173,458)	(88,410)	157,959	21,639

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Note	For the years ended December 31,			
		2022	2023	2024	
		RMB	RMB	RMB	US\$
					Note 2(e)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of non-controlling interests	19	—	(6,920)	—	—
Purchase of short-term investments		(76,807)	(56,694)	(885,706)	(121,341)
Redemption of short-term investments		151,388	—	444,759	60,932
Payments for short-term deposits		—	(14,164)	(130,071)	(17,820)
Proceeds received from maturity of short-term deposits		—	—	143,782	19,698
Payments for restricted short-term deposits		—	(33,437)	(39,486)	(5,410)
Proceeds received from maturity of restricted short-term deposits		—	—	43,942	6,020
Purchase of property and equipment		(12,166)	(7,832)	(38,966)	(5,338)
Proceeds from disposal of property and equipment		188	—	—	—
Acquisition of intangible assets		(1,653)	(1,255)	(1,112)	(152)
Cash paid for long-term investments		(4,550)	(10,090)	(19,650)	(2,692)
Receipt of loans receivable		—	1,700	—	—
Net cash flow provided by (used in) investing activities		56,400	(128,692)	(482,508)	(66,103)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from short-term bank loans	12	49,794	69,090	64,250	8,802
Repayment of short-term bank loans		(10,000)	(49,794)	(69,090)	(9,465)
Proceeds from long-term bank loans	12	—	10,000	25,000	3,425
Repayment of a long-term bank loan		(3,000)	(14,154)	(6,846)	(938)
Proceeds from short-term debts		69,861	—	90,000	12,330
Repayment of short-term debts		—	(69,861)	(90,000)	(12,330)
Proceeds from issuance of a subsidiary’s equity to a non-controlling interest holder		85	—	—	—
Payment of share repurchase		—	—	(10,085)	(1,382)
Proceeds from issuance of Class A ordinary shares, net of issuance costs		—	250,199	698,128	95,643
Net cash provided by financing activities		106,740	195,480	701,357	96,085
Effect of exchange rate changes on cash, cash equivalents and restricted cash		12,605	562	5,819	797
Net increase (decrease) in cash, cash equivalents and restricted cash		2,287	(21,060)	382,627	52,418
Cash, cash equivalents and restricted cash at the beginning of the year		247,023	249,310	228,250	31,272
Cash and cash equivalents at the end of the year		249,310	228,250	610,877	83,690

EHANG HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

	Note	For the years ended December 31,			
		2022	2023	2024	
		RMB	RMB	RMB	US\$
Note 2(e)					
Supplemental disclosures of cash flow information					
Interest paid		1,502	2,183	3,400	466
Income taxes paid		79	184	101	14
Non-cash investing and financing activities					
Loans receivable settled by accounts payable		—	5,800	—	—
Purchase of property and equipment included in accrued expenses and other liabilities		3,327	1,401	1,198	164

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

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations

(a) Principal activities

EHang Holdings Limited (the “Company”) was incorporated in the Cayman Islands on December 23, 2014 under the Cayman Islands Companies Law as an exempted company with limited liability. On December 12, 2019, the Company completed its initial public offering (the “IPO”) and got listed on Nasdaq Global Market. The Company through its consolidated subsidiaries, variable interest entity (the “VIE”) and the subsidiaries of the VIE (collectively, the “Group”) are principally engaged in the research and development, manufacturing, sales and operations of unmanned aerial vehicles (“UAVs”). The Group established its manufacturing facility in Yunfu City in the PRC.

(b) Principal subsidiaries and VIEs

As of December 31, 2024, the Company’s major subsidiaries, VIE and the subsidiaries of the VIE (“VIEs”, refer to VIE and its subsidiaries as a whole, where appropriate) are as follows:

<u>Entities</u> Subsidiaries:	Date of incorporation establishment	Place of incorporation establishment	Equity interest held		Principal activities
			Direct	Indirect	
Ehfly Technology Limited (“Ehfly”)	December 5, 2014	Hong Kong	100%	—	Product sales, investment holding
EHang Intelligent Equipment (Guangzhou) Co., Ltd. (“EHang Intelligent” or the “WFOE”)	October 15, 2015	PRC	100%	—	Research and development, manufacturing and product sales
Yunfu EHang Intelligent Technology Limited (“EHang Yunfu”)	June 15, 2020	PRC	68.5%	—	Research and development, manufacturing and product sales
<u>Variable Interest Entity</u>					
Guangzhou EHang Intelligent Technology Co., Ltd. (“EHang GZ” or the “VIE”)	August 8, 2014	PRC	—	100%	Research and development, manufacturing and product sales
<u>VIE’s Subsidiaries</u>					
Guangdong EHang General Aviation Co., Ltd. (“EHang Aviation”)	March 11, 2021	PRC	—	100%	Operational flight services
Guangdong EHang Egret Media Technology Co., Ltd (“EHang Egret GD”)	July 6, 2016	PRC	—	100%	Operational aerial media solutions

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations (Continued)

(b) Principal subsidiaries and VIEs (Continued)

Summary of the VIE contractual arrangements (the “VIE Contractual Agreements”)

The Group conducts all of its business in China through its subsidiaries and the VIEs in the PRC. The Company’s subsidiary EHang Intelligent, or the WFOE, has entered into contractual arrangements with the VIE and its shareholder described below, which are referred to as the VIE Contractual Agreements. As of December 31, 2019, the equity interests of the VIE were legally held by Mr. Huazhi Hu and Mr. Derrick Yifang Xiong (the “Former Shareholders”). For the year ended December 31, 2020, the Former Shareholders transferred their equity interests to Mr. Shuai Feng and Mr. Weixian Xia, both are the Group’s employees (the “Nominee Shareholders”). The Nominee Shareholders then signed the Contractual Agreements with terms essentially the same as the ones signed before. Through the Contractual Agreements, the Nominee Shareholders of the VIE effectively assigned all of their voting rights underlying their equity interests in the VIE to the WFOE, which is a wholly owned entity by the Company, who further assigned the voting rights underlying their equity interests in the VIE to the Company. Therefore, the Company has the power to direct the activities of the VIE that most significantly impact their economic performance. The Company also has the right to receive economic benefits via the WFOE, and the obligation to absorb losses of the VIE, that potentially could be significant to the VIE. Through the VIE Contractual Agreements, the Company is considered the primary beneficiary of the VIEs for accounting purposes only and thus consolidates each of these entities under ASC810-10, *Consolidation: Overall*.

The following is a summary of the Contractual Agreements among the Former Shareholders, the VIE and the WFOE, and then amended in 2020 to the Nominee Shareholders:

Loan Agreement

The WFOE has granted interest-free loans with an aggregate amount of RMB60,000 to the Nominee Shareholders of the VIE for the sole purpose of providing funds necessary for the capital injection of the VIE. The loans are repayable by such Nominee Shareholder through a transfer of their equity interests in the VIE to the WFOE, in proportion to the amount of the loans to be repaid.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations (Continued)

(b) Principal subsidiaries and VIEs (Continued)

Summary of the VIE contractual arrangements (the “VIE Contractual Agreements”) (Continued)

Power of Attorney and Shareholders Voting Proxy

Pursuant to the Power of Attorney and Shareholders Voting Proxy entered into between the Nominee Shareholders, the VIE and the WFOE, the Nominee Shareholders authorized the WFOE to act on behalf of the Nominee Shareholders as exclusive agent and attorney with respect to all matters concerning the VIE’s equity interests, including but not limited to: (1) attend shareholders’ meetings of the VIE; (2) exercise all the shareholders’ rights, including voting rights; and (3) designate and appoint the senior management members of the VIE. The proxy is irrevocable and continuously valid from the date of execution. The WFOE is entitled to re-authorize or assign its rights related to the equity interest to any other person or entity at its own discretion and without giving prior notice to the Nominee Shareholders or obtaining their consents. In 2019, the WFOE reassigned its rights under the Power of Attorney and Shareholders Voting Proxy to the Company, pursuant to the Commitment Letter below.

Exclusive Option Agreements

Pursuant to the Exclusive Option Agreements entered amongst the Nominee Shareholders, the VIE and WFOE, the Nominee Shareholders granted to WFOE or their designees an irrevocable and exclusive right to purchase all or part of the equity interests held by the Nominee Shareholders in the VIE at the WFOE’s sole discretion, to the extent permitted under the PRC laws, at an amount equal to the minimum consideration permitted under the applicable PRC law and administrative regulations. Any proceeds received by the Nominee Shareholders from the exercise of the options shall be remitted to the WFOE or its designated party, to the extent permitted under PRC laws. In addition, the VIE and the Nominee Shareholders have agreed that without prior written consent of the WFOE, they will not create any pledge or encumbrance on their equity interests in the VIE, or transfer or otherwise dispose of their equity interests in the VIE. The term of the agreement remains effective as long as each Nominee Shareholder remains a shareholder of the VIE. The WFOE may terminate the agreement at its sole discretion, whereas under no circumstances may the VIE or the Nominee Shareholders terminate the agreement.

Exclusive Consulting and Service Agreement

Pursuant to the Exclusive Consulting and Service Agreement between the WFOE and the VIE, the WFOE has the exclusive right to provide services to the VIE related to the VIE’s and the VIE’s subsidiaries’ business, including but not limited to the development, manufacturing and sales of intelligent aerial vehicles. In return, the VIE agrees to pay a service fee equal to 100% of the consolidated net profits of the VIE after the VIE turns cumulative profitable and after certain expenses. The WFOE has sole discretion in determining the service fee charged to the VIE under this agreement. Without the WFOE’s prior written consent, the VIE shall not, directly and indirectly, obtain the same or similar services as provided under this agreement from any third party. The WFOE will have the exclusive ownership of all intellectual property rights developed by performance of this agreement. The Exclusive Consulting and Service Agreement is valid for 10 years and renewable at the WFOE’s option. This agreement can be terminated by the WFOE with 30 days’ notice at any time but cannot be terminated by the VIE unless the WFOE is found to be in gross negligence.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations (Continued)

(b) Principal subsidiaries and VIEs (Continued)

Summary of the VIE contractual arrangements (the “VIE Contractual Agreements”) (Continued)

Share Pledge Agreements

Pursuant to the Share Pledge Agreements entered amongst the WFOE and the Nominee Shareholders, the Nominee Shareholders pledged all of their equity interests in the VIE to the WFOE in favor of the WFOE to secure the VIE and their obligations under the various contractual agreements, including the Exclusive Consulting and Service Agreements and Exclusive Option Agreements described above. The WFOE shall have the right to collect dividends generated by the pledged equity interests during the term of the pledge. If the Nominee Shareholders breach their respective contractual obligations under the Share Pledge Agreements, the WFOE, as pledgee, will be entitled to rights, including the right to dispose of the pledged equity interests entirely or partially. The Nominee Shareholders of the VIE agree not to create any encumbrance on or otherwise transfer or dispose of their respective equity interests in the VIE, without the prior consent of the WFOE. The Share Pledge Agreements will remain effective until all the contractual obligations have been satisfied in full under all the agreements mentioned above. In March 2021, the Company has completed the registration of the share pledge with the relevant office of Administration for the Industry and Commerce in accordance with the PRC Property Rights Law.

Commitment Letter

Pursuant to the Commitment Letter, the WFOE irrevocably and unconditionally commits to execute its rights and obligations under the Power of Attorney and Shareholders Voting Proxy under the instruction of the Company. In addition, the Company is obligated and undertakes to provide unlimited financial support to the VIE, to the extent permissible under applicable PRC laws and regulations.

Based on the opinion of the Company’s PRC legal counsel, (i) the ownership structure of the WFOE and the VIEs are in compliance with applicable PRC laws and regulations, (ii) such Contractual Agreements constitute valid, legal and binding obligations enforceable against each party of such agreements in accordance with the terms of each agreement, and will not result in any violation of PRC laws or regulations currently in effect.

However, uncertainties in the PRC legal system could cause the relevant regulatory authorities to find the current Contractual Agreements and businesses to be in violation of any existing or future PRC laws or regulations. If the Company, the WFOE or any of their current or future VIE are found in violation of any existing or future laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, which may include, but not limited to, revocation of business and operating licenses, being required to discontinue or restrict its business operations, restriction of the Group’s right to collect revenues, being required to restructure its operations, imposition of additional conditions or requirements with which the Group may not be able to comply, or other regulatory or enforcement actions against the Group that could be harmful to its business. The imposition of any of these or other penalties may result in a material and adverse effect on the Group’s ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIE or the right to receive their economic benefits, the Company would no longer be able to consolidate the VIE.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations (Continued)

(b) Principal subsidiaries and VIEs (Continued)

The following financial statement balances and amounts of the Group’s VIEs were included in the accompanying consolidated financial statements:

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$
ASSETS			
Cash and cash equivalents	4,113	6,866	941
Accounts receivable, net	1,636	6,106	837
Inventories	834	834	114
Prepayments and other current assets	4,324	3,924	538
Amounts due from the Company and its subsidiaries	6,161	86,496	11,850
Property and equipment, net	6,806	3,436	471
Long-term investment	6,348	15,459	2,118
Right-of-use assets, net	250	—	—
Intangible assets, net	273	371	51
Total assets	<u>30,745</u>	<u>123,492</u>	<u>16,920</u>
LIABILITIES			
Accounts payable	3,584	3,070	421
Contract liabilities	1,677	1,848	253
Current portion of long-term bank loans	1,538	2,000	274
Accrued expenses and current liabilities	23,421	31,919	4,373
Amounts due to the Company and its subsidiaries	76,215	82,179	11,258
Long-term bank loans	2,308	7,000	959
Unrecognized tax benefit	588	588	81
Lease liabilities	250	—	—
Total liabilities	<u>109,581</u>	<u>128,604</u>	<u>17,619</u>

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations (Continued)

(b) Principal subsidiaries and VIEs (Continued)

The following financial statement balances and amounts of the Group’s VIEs were included in the accompanying consolidated financial statements (continued):

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Revenues	10,147	32,808	123,960	16,982
- Third-party revenue	6	9,225	5,553	761
- Inter-company revenue	10,141	23,583	118,407	16,221
Net (loss) income	(38,091)	(5,234)	66,234	9,074
Net cash provided by operating activities	4,627	14,870	11,695	1,602
Net cash used in investing activities	(237)	(17,007)	(14,096)	(1,931)
Net cash (used in) provided by financing activities	(1,000)	(5,154)	5,154	706
Net increase (decrease) in cash and cash equivalents	3,390	(7,291)	2,753	377

Other than the amounts due to the Company and its subsidiaries (which are eliminated upon consolidation), all remaining liabilities of the VIE are without recourse to the primary beneficiary. The Company did not provide or intend to provide financial or other supports that are not previously contractually required to the VIEs during the years presented.

The revenue-producing assets that are held by the VIEs comprise mainly of permits, domain names, IP rights, operating licenses, intangible assets and fixed assets. The VIEs contributed an aggregate of 0.01%, 7.86% and 1.22% of the Group’s consolidated revenues for the years ended December 31, 2022, 2023 and 2024, respectively, after elimination of inter-company transactions. The VIEs contributed RMB47,683, RMB26,013 and RMB51,893 (US\$7,109) of the Group’s consolidated net loss for the years ended December 31, 2022, 2023 and 2024, respectively, after elimination of inter-company transactions. There are no consolidated VIE’s assets that are pledged or collateralized for the VIE’s obligations which can only be used to settle the VIE’s obligations, except for the registered capital and the statutory reserves. Relevant PRC laws and regulations restrict the VIE from transferring a portion of its net assets, equivalent to the balance of its statutory reserves and its share capital, to the Company in the form of loans and advances or cash dividends (Note 21). Creditors of the VIE do not have recourse to the general credit of the Company for any of the liabilities of the VIE. There were no other pledges or collateralization of the VIE’s assets.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

1. Organization and Nature of Operations (Continued)

(c) Liquidity and Going Concern

The Group has been incurring losses from operations since inception. For the years ended December 31, 2022, 2023 and 2024, the Group incurred net losses of RMB329,331, RMB302,341 and RMB230,032 (US\$31,514), respectively. As of December 31, 2023 and 2024, accumulated deficits amounted to RMB1,754,542 and RMB1,984,851 (US\$271,923), respectively. Net cash used in operating activities was RMB173,458, RMB88,410 and net cash generated from operating activities was RMB157,959 (US\$21,639) for the years ended December 31, 2022, 2023 and 2024, respectively.

As of December 31, 2024, the Group’s balance of cash and cash equivalents, short-term investments, restricted short-term deposits were RMB610,877 (US\$83,690), RMB513,683 (US\$70,374), RMB30,295 (US\$4,150), respectively.

The Group’s liquidity is based on its ability to enhance its operating cash flow position, obtain capital financing from equity interest investors and borrow funds to fund its general operations, research and development activities and capital expenditures. The Group’s ability to continue as a going concern is dependent on management’s ability to execute its business plan successfully, which includes increasing market acceptance of the Group’s products to boost its sales volume to achieve economies of scale while applying more effective marketing strategies and cost control measures to better manage operating cash flow position and obtaining funds from outside sources of financing to generate positive financing cash flows.

Management has concluded that its existing balance of cash and cash equivalents, short-term investments and restricted short-term deposits as of December 31, 2024 provide the Group with sufficient liquidity to meet its working capital requirements and contractual (including debt) obligations for the next twelve months following the issuance of the consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) to reflect the financial position, results of operations and cash flows of the Group. Significant accounting policies followed by the Group in the preparation of the accompanying consolidated financial statements are summarized below.

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and the VIEs, for which the Company is the ultimate primary beneficiary. All significant inter-company transactions and balances between the Company, its subsidiaries, and the VIEs have been eliminated upon consolidation.

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to appoint or remove the majority of the members of the board of directors (the “Board”): to cast majority of votes at the meeting of the Board or to govern the financial and operating policies of the investee under a statute or agreement among the shareholders or equity holders.

A VIE is an entity in which the Company, or its subsidiary, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with, ownership of the entity, and therefore the Company or its subsidiary is the primary beneficiary of the entity. In determining whether the Company or its subsidiaries are the primary beneficiary, the Company considered whether it has the power to direct activities that are significant to the VIE’s economic performance, and also the Company’s obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

(c) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and revenues and expenses during the reporting periods in the consolidated financial statements and accompanying notes. Significant estimates and assumptions reflected in the Group’s consolidated financial statements include, but not limited to expected total costs of command-and-control revenue contracts, expected credit losses, the determination of warranty cost, lower of cost and net realizable value of inventory, useful lives of long-lived assets, impairment of long-lived assets, valuation allowance for deferred tax assets, uncertain tax positions, fair value of the warrants and short-term debt, fair value of share-based awards, fair value of financial instruments and the incremental borrowing rates for operating lease liabilities. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Changes in facts and circumstances may result in revised estimates. Actual results could differ from those estimates, and as such, differences may be material to the consolidated financial statements.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(d) Foreign currency

The functional currency of the Company, Ehfly, and EHANG Investment (HK) Limited (“EHang HK”) is the United States dollar (“US\$”). The functional currency of EHang Holding GmbH (“EHang GmbH”), EHANG TECHNOLOGIES SPAIN & LATAM, S.L. (“EHang Spain”) and Ehang EUROPE SAS (“EHang France”) is the euro (“€”). The functional currency of the Company’s PRC subsidiaries and the VIEs is the Renminbi (“RMB”). The Group uses the RMB as its reporting currency. The determination of the respective functional currency is based on the criteria set out by ASC 830, *Foreign Currency Matters*.

Transactions denominated in foreign currencies are re-measured into the functional currency at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are re-measured at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are re-measured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are included in the consolidated statements of comprehensive loss.

The financial statements of the Group’s entities of which the functional currency is not RMB use the periodic average exchange rates and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive income, a component of shareholders’ equity.

(e) Convenience translation

Amounts in US\$ are presented for the convenience of the reader and are translated at the noon buying rate of US\$1.00 to RMB7.2993 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board on December 31, 2024. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into US\$ at that rate on December 31, 2024, or any other rate.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits and highly liquid investments placed with bank and other financial institutions, which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

(g) Short-term deposits

Short-term deposits represent time deposits placed with banks with original maturities between three months and one year. Interest earned is recorded as interest and investment income in the consolidated statements of comprehensive loss during the years presented. As of December 31, 2023, the Group’s short-term deposits had been placed in a reputable financial institution in the PRC.

(h) Restricted short-term deposits

As of December 31, 2023 and 2024, restricted short-term deposits represent time deposits placed with a reputable bank in the PRC with original maturities between three months and one year, which are pledged for issuance of letter of credit. Interest earned is classified as “interest and investment income” in the consolidated statements of comprehensive loss during the periods presented.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(i) Derivative instruments

The Group’s derivative instruments are carried at fair value, which primarily consisted of foreign exchange forward contract. The fair values of the derivative instruments generally represent the estimated amounts expect to receive or pay upon termination of the contracts as of the reporting date. The Group selectively uses financial instruments to mitigate the risk of foreign currency exchange (losses) gains arose from the Group’s cash and cash equivalent denominated in US\$ and euro. As the derivative instruments of foreign exchange forward contract does not qualify for hedge accounting treatment, changes in the fair value are reflected in “interest and investment income” of the consolidated statements of comprehensive loss. As of December 31, 2023 and 2024, the notional principal amounts of the outstanding foreign exchange forward contract were approximately RMB34,072 and RMB31,215, respectively. Total changes in fair value of the derivatives recorded in interest and investment income, were an income of RMB1,743 and a loss of RMB8 (US\$1) for the years ended December 31, 2023 and 2024.

(j) Short-term investments

All highly liquid investments with original maturities of greater than three months but less than twelve months, are classified as short-term investments. Investments that are expected to be realized in cash during the next twelve months are also included in short-term investments.

Short-term investments consist primarily of investments in wealth management products, which are redeemable within one year. These investments are all designated as trading and measured at fair value and the change in fair value is recognized in “interest and investment income”.

(k) Current expected credit loss

Prior to January 1, 2023, accounts receivable are carried at net realizable value. An allowance for doubtful accounts is recorded in the period when loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging and other factors. Accounts receivable are written off after all collection effort has ceased.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC Topic 326”), which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. The Group adopted this ASC Topic 326 and several associated ASUs on January 1, 2023 using a modified retrospective approach with a cumulative effect recorded as an increase of accumulated deficit in the amount of RMB2,422.

The Group’s cash and cash equivalents, short-term deposits, restricted short-term deposits, accounts receivable, contract asset, loans receivable, other receivables and other non-current assets are within the scope of ASC Topic 326. The Group has identified the relevant risk characteristics of its customers and the related receivables which include the products the Group provides, the type of business, the scale of transactions on credit terms, the nature of counterparties and the level of credit risk of the customers, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Group considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include payment terms offered in the normal course of business to customers and industry-specific factors that could impact the Group’s receivables. Additionally, external data and macroeconomic factors are also considered. This is assessed at each quarter based on the Group’s specific facts and circumstances. For the year ended December 31, 2023 and 2024, the Group recorded RMB13,691 and RMB12,790 (US\$1,752) of expected credit loss, net in general and administrative expenses, respectively.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(k) Current expected credit loss (Continued)

The Group considers historical credit loss rates for each category of loan receivables, other receivables and other non-current assets and also considers forward looking macroeconomic data in making its loss accrual determinations. The Group has made specific credit loss provisions on a case-by-case basis for particular aged receivable balances.

The Group’s expected credit loss of cash and cash equivalents, short-term deposits and restricted short-term deposits in banks and other non-current asset within the scope of ASC Topic 326 were immaterial. The following table summarizes the activity in the allowance for credit losses related to accounts receivable, contract asset, loans receivable and other receivables for the year ended December 31, 2023 and 2024:

	For the year ended December 31,		
	2023	2024	
	RMB	RMB	US\$
Balance as of December 31, 2022	117,035		
Adoption of ASC Topic 326	2,422		
Balance as of January 1, 2023	119,457		
Balance as of January 1	119,457	132,806	18,194
Current period provision	16,455	19,262	2,639
Reversal	(2,764)	(6,472)	(887)
Write-off	—	(35,194)	(4,822)
Acquisition of non-controlling interests	(390)	—	—
Foreign currency translation adjustments	48	20	3
Balance as of December 31	132,806	110,422	15,127

(l) Cost and estimated earnings in excess of billings

Design and construction of customized command-and-control center contracts generally extend over longer periods of time and revenue is recognized using the cost-to-cost method. The Group’s right to receive payments depends on its performance in accordance with the contractual agreements. Billings are issued based on milestones specified in the contracts negotiated with customers. In general, there are five milestones: 1) signing of the contract, 2) delivery and acceptance of hardware, 3) completion of software integration into hardware and the related testing, 4) delivery and acceptance of a completed command-and-control center, and 5) expiration of the one-year warranty period. The amounts to be billed at each milestone are specified in the contract. The length of each interval between two continuous billings under a command-and-control center contract varies depending on the duration of the contract and the last billing to be issued for the contract is scheduled at the end of a warranty period.

Revenue in excess of billings on the contracts is recorded as costs and estimated earnings in excess of billings. Billings in excess of revenues recognized on the contracts are recorded as deferred income until the above revenue recognition criteria are met. The carrying value of the Group’s costs and estimated earnings in excess of billings, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Group recognizes an allowance for doubtful accounts on costs and estimated earnings in excess of billings when it is probable that it will not collect the amount and writes off any balances in the period when deemed uncollectible. The Group periodically reviews the status of contracts and decides how much of an allowance for doubtful accounts should be made based on factors surrounding the credit risk of customers and historical experience. The Group does not require collateral from its customers and does not charge interest for late payments by its customers.

As of December 31, 2023 and December 31, 2024, there were no cost and estimated earnings in excess of billings.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(m) Inventories

Inventories are comprised of raw materials, work in progress and finished goods. The Group’s raw materials consist of accessories and hardware parts used to produce UAVs and hardware for building the command-and-control centers. Work in progress primarily consist of UAVs and hardware parts in production which will be transferred into production cost when incurred. Finished goods primarily consist of UAVs. Cost is determined using the weighted average method and includes all costs to acquire and other costs to bring the inventories to their present location and condition. Inventories are stated at the lower of cost or net realizable value. This requires the determination of the estimated selling price of the vehicles less the estimated cost to convert inventory on hand into a finished product. Once inventory is written down, a new, lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis. Adjustments to reduce the cost of inventory to its net realizable value are made, if required, to record the decreases in sales prices, obsolescence or similar reductions in the estimated net realizable value. Inventory write-downs of RMB956, RMB460 and RMB921 (US\$126) were recognized in "cost of revenues" for the years ended December 31, 2022, 2023 and 2024.

(n) Property and equipment, net

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Category	Estimated useful life	Residual value
Mold and tooling	2-5 years	0%
Office equipment	5 years	5%
Machinery and electronic equipment	3-10 years	5%
Transportation equipment	4 years	5%
Leasehold improvements	Shorter of lease term or the estimated useful lives of the assets	0%

Repair and maintenance costs are charged to expense as incurred, whereas the costs of renewals and betterments that extend the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of comprehensive loss. The gain (losses) on the disposal of property and equipment amounting to RMB103, RMB(138) and RMB(682) (US\$(93)) were recognized in the consolidated statements of comprehensive loss for the years ended December 31, 2022, 2023 and 2024, respectively.

Direct costs that are related to the construction of property and equipment and incurred in connection with bringing the assets to their intended use are capitalized as construction-in-progress.

Construction-in-progress is transferred to specific property and equipment accounts and commences depreciation when these assets are ready for their intended use.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(o) Intangible assets, net

Intangible assets consist of software, patents and trademarks. Intangible assets with finite lives, including software, patents and trademarks are carried at acquisition cost less accumulated amortization and impairment, if any. Finite lived intangible assets are tested for impairment if impairment indicators arise.

Amortization of intangible assets with finite lives are computed using the straight-line method over the estimated useful lives as below:

Category	Estimated useful life
Software	3-5 years
Patents and trademarks	5 years

The estimated useful lives of intangible assets with finite lives are reassessed if circumstances occur that indicate the original estimated useful lives have changed.

There are no intangible assets with indefinite lives for the years ended December 31, 2022, 2023 and 2024.

(p) Impairment of long-lived assets other than goodwill

The Group evaluates its long-lived assets or asset group, including intangible assets with finite lives, for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying amount of an asset or a group of long-lived assets may not be recoverable. When these events occur, the Group evaluates for impairment by comparing the carrying amount of the assets to future undiscounted net cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flow is less than the carrying amount of the assets, the Group would recognize an impairment loss based on the excess of the carrying amount of the asset group over its fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the long-lived assets or asset group, when the market prices are not readily available. No impairment loss was charged for long-lived assets in any of the presented periods.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(q) Long-term investments

The Group’s long-term investments consist of equity investments without readily determinable fair value, equity investments accounted for using the equity method and debt security investments.

Equity Investments without Readily Determinable Fair Values

According to ASC 321, the Group elected to use the measurement alternative to measure the investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The Group’s management regularly evaluates the impairment of its investments based on the performance and financial position of the investee as well as other evidence of estimated market values. Such evaluation includes, but is not limited to, reviewing the investee’s cash position, recent financing, projected and historical financial performance, cash flow forecasts and current and future financing needs. An impairment loss is recognized in the consolidated statements of comprehensive loss equal to the excess of the investment’s cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of the investment.

Equity Investments Accounted for Using the Equity Method

Investments in equity investees represent investments in entities in which the Group can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC 323-10, *Investments-Equity Method and Joint Ventures: Overall* (“ASC 323-10”). Under the equity method, the Group initially records its investment at cost and prospectively recognizes its proportionate share of each equity investee’s net profit or loss. The difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is recognized as goodwill included in long-term investments on the consolidated balance sheets. The Group evaluates its equity method investments for impairment under ASC 323-10. An impairment loss on equity method investments is recognized in the consolidated statements of comprehensive loss when the decline in value is determined to be other-than-temporary. No impairment was charged in any of the presented periods.

The Group eliminates its intercompany profits or losses related to transactions with investees until profits or losses are realized through transactions with third parties.

Debt Security Investment

As of December 31, 2023 and 2024, the Group’s long term debt security investment represented minority equity interest with redemption right in an investee. The Group elected to account for the debt investment under the fair value option model including preferred stock redeemable merely by the passage of time and at the option of the Group as a holder. The fair value option model permits the irrevocable election on an instrument-by-instrument basis at initial recognition or upon an event that gives rise to a new basis of accounting for that instrument. The investment accounted for under the fair value option model is carried at fair value with unrealized gains and losses recorded in “interest and investment income” in the consolidated statements of comprehensive loss.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(r) Fair value measurements of financial instruments

The Group applies ASC 820 (“ASC 820”), *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 requires disclosures to be provided on fair value measurement.

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Other inputs that are directly or indirectly observable in the marketplace.

Level 3 — Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach; and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

When available, the Group uses quoted market prices to determine the fair value of an asset or liability. If quoted market prices are not available, the Group will measure fair value using valuation techniques that use, when possible, current market-based or independently sourced market parameters.

The Group’s financial instruments primarily consist of cash and cash equivalents, short-term deposits, restricted short-term deposits, short-term investments, loans receivable, accounts receivable and payable, other current assets, bank loans, short-term debt, accrued expenses and other liabilities and mandatorily redeemable non-controlling interests. The carrying values of these financial instruments, except for short-term investments, short-term debt, long-term loans and mandatorily redeemable non-controlling interests, are approximated to their fair values due to their short-term maturities.

As of December 31, 2023 and 2024, financial assets that are measured at fair value on a recurring basis consist of foreign exchange forward contract, short term investments and long-term debt security investment. Foreign exchange forward contract was classified within Level 2 of the fair value hierarchy because the quoted market price of underlying asset is not fully observable. Short term investments with observable inputs that reflected quoted prices for identical assets in active markets were categorized as Level 1, while short term investments without fully observable quoted market price of underlying asset were categorized as Level 2. Long-term debt security investment did not have readily determinable market values and was categorized as Level 3 in the fair value hierarchy. Under these circumstances, the Group has adopted certain valuation techniques using unobservable inputs to measure their respective fair values.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(s) Revenue recognition

The Group’s revenues are primarily derived from the sale of UAVs and related commercial solutions, mainly including air mobility solutions, smart city management solutions, and aerial media solutions.

The Group enters into legally enforceable and binding agreements with its customers with fixed terms and conditions, including pricing. The Group recognizes revenue at the amount to which it expects to be entitled when control of the products or services are transferred to its customers. Revenues are presented net of taxes collected on behalf of the government.

When either party to a contract has performed, the Group presents the contract in the consolidated balance sheets as a contract asset or a contract liability, depending on the relationship between the entity’s performance and the customer’s payment.

A contract asset is the Group’s right to consideration in exchange for goods and services that the Group has transferred to a customer when the consideration is conditioned other than the passage of time, which is recorded as unbilled revenue. A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the Group presents the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. The Group’s contract liabilities primarily result from the advance received of sales of UAVs and related commercial solutions, which are recognized as revenue based on the consumption of the services or the delivery of the goods.

The Group generally does not separately bill its customers for shipping and handling fees and charges. The Group elects to record the costs incurred for shipping and handling in “sales and marketing expenses” in its consolidated statements of comprehensive loss. The shipping and handling costs for the years ended December 31, 2022, 2023 and 2024 were RMB848, RMB1,427 and RMB2,438 (US\$334), respectively.

Practical Expedients

The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed as substantially all of the Group contracts have a duration of one year or less.

Air mobility solutions

Revenues from air mobility solutions are primarily product revenues from the sales of passenger-grade UAVs and its software. As the UAVs and software are highly interdependent, the entire bundle of promised goods is considered one performance obligation within the context of the contract. The single performance obligation is satisfied at a point in time. The Company relies on customer’s acknowledgement of receipt and goods delivery notes when the goods are shipped to domestic customers and proof of shipments with oversea customers to determine when performance obligations are satisfied. When goods are shipped to domestic customers, who acknowledged the receipt of goods, or shipped to oversea customers with “FOB Shipping Point”, control of the goods is transferred to the customer if there are no remaining performance obligations. The Company recognizes the revenue once control passes to the customer. The transaction price is the amount of consideration the Company expects to receive under the arrangement. The Company is required to estimate variable consideration (if any) and to factor that estimation into the determination of the transaction price. The Group only provides the right of return for defective goods in connection with its warranty policy which is accounted for as an assurance-type warranty (Note 11). For the extended warranty beyond the standard policy, the Group considers it provides a level of protection beyond defects that existed at the time and accounts it as a separate performance obligation.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(s) Revenue recognition (continued)

Service revenues from air mobility solutions are primarily provision of exhibition income which are satisfied over time.

Others

Smart city management solutions

The Group enters into contracts with its customers for designing, building and delivering customized integrated command-and-control centers. The duration of the contracts depends on the contract size and ranges from three months to one year, excluding the duration of warranty accounted for as an assurance-type warranty (Note 11), which ranges from one year to three years. The Group provides a significant service of integrating goods and services including the project design, hardware and software promised in the contract into a combined output; therefore, the goods and services in the contracts are not distinct from each other and the Group determines there is one performance obligation, which is the delivery of the customized integrated command-and-control center. The performance obligation is satisfied, and control is transferred to the customer over time because there is no alternative use for the highly customized and integrated command-control-center and the Group has an enforceable right to payment for performance completed to date. The Group has determined the cost-to-cost method best depicts the measure of progress towards fulfilling the performance obligation. Under this method, revenue is recognized based on the estimated extent of progress, which is determined by dividing costs incurred to date by the total amount of costs expected to be incurred for designing, building and delivering a customized integrated command-and-control center. Revisions in the estimated total costs of command-and-control center contracts are made in the period in which the circumstances requiring the revision become known. Provisions, if any, are made in the period when anticipated losses become evident on uncompleted contracts.

The Group reviews and updates the estimated total costs of command-and-control center contracts periodically. The Group accounts for revisions to contract revenue and estimated total costs of command-and-control center contracts, in the period in which the facts that cause the revision become known as changes in estimates. Unapproved change orders are considered claims. Claims are recognized only when they have been awarded by customers.

Aerial media solutions

The Group generates revenue by providing aerial media performance services and related products. Aerial media performance services allow multiple smart control-based drones to demonstrate and transform their formation to display diversified messages and images in specific airspace, that is tailor made based on different branding or advertising requirements. The Group uses self-produced drones and customizes the fleet formation performances based on customer’s needs and availability of airspace approval in the area. The performance is usually completed within a day and revenue is recognized when the service is delivered. While the aerial media performance services are delivered to customers over a period of time, the customer simultaneously receives and consumes the benefits of the Group’s performance as and when each service is delivered and revenue is recognized over time.

The Group also sells hardware and software components of the aerial media performance drones. As the hardware and software components are highly interdependent, the entire bundle of promised goods is considered one performance obligation within the context of the contract. The single performance obligation is satisfied at a point in time, which is upon customer acceptance of the products.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(s) Revenue recognition (continued)

Others

The Group generates other revenues mainly from stand-alone sales of consumer drones and their components and spare parts. Revenues are recognized when the consumer drones are shipped and the control of the drones are transferred to the customers. The Group started to phase out the consumer drone business in late 2016.

Contract modifications, defined as changes in the scope or price (or both) of a contract that are approved by the parties to the contract, such as a contract amendment, exist when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. Contract modifications, if any, will be accounting for as one of the following: (i) a separate contract; (ii) a termination of the existing contract and a creation of a new contract; or (iii) a combination of the preceding treatments. A contract modification is accounted for as a separate contract if the scope of the contract increases because of the addition of promised goods or services that are distinct and the price of the contract increases by an amount of consideration that reflects the Group’s standalone selling prices of the additional promised goods or services. When a contract modification is not considered a separate contract and the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, the Group accounts for the contract modification as a termination of the existing contract and a creation of a new contract. When a contract modification is not considered a separate contract and the remaining goods or services are not distinct, the Group accounts for the contract modification as an add-on to the existing contract and as an adjustment to revenue on a cumulative catch-up basis.

(t) Cost of revenue

Cost of revenue consists primarily of autonomous aerial vehicle material and manufacturing costs, construction costs of smart city management solutions, product warranty costs, provision for inventories, payroll, employee benefits, rental fees, depreciation and related costs of operations.

(u) Product warranty liability

The Group offers standard warranties to replace or repair defects on certain hardware parts of its passenger-grade UAVs for a period of six months to three years. The Group does not provide warranties to guarantee that the UAVs will perform as expected or in accordance with published specifications or provide expected benefits. The Group also provides a standard warranty for hardware and software for the command-and-control centers for a period ranging from one year to three years. The Group accrues for the estimated costs to repair or replace defective hardware parts and costs to assure software effectiveness as costs of revenues when revenue is recognized. The Group estimates its warranty costs by considering its historical experience of having to replace or repair hardware parts and for software de-bugging and the historical costs incurred have been insignificant to date. The estimates of warranties are inherently uncertain given the Group’s relatively short history of sales, and changes to the Group’s historical or projected warranty experience may cause material changes to the warranty reserve in the future. The Group reassesses whether warranty accruals are adequate based on actual experience as it becomes available and adjusts its estimates on a prospective basis.

Product warranty accrual is included in accrued expenses and other current liabilities (Note 11) and other non-current liabilities in the accompanying consolidated balance sheets.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(v) Advertising expenditures

Advertising expenditures are expensed as incurred and are included in “sales and marketing expenses”, which amounted to RMB2,945, RMB2,918 and RMB3,645 (US\$499) for the years ended December 31, 2022, 2023 and 2024, respectively.

(w) General and administrative expenses

General and administrative expenses consist primarily of payroll, employee benefits, share-based compensation, legal and other professional services fees, allowance for doubtful accounts/expected credit losses provision, and other general corporate related expenses.

(x) Research and development expenses

Research and development expenses include materials and supplies, payroll, employee benefits, share-based compensation and other operating expenses such as rent, depreciation and other related expenses.

The Group capitalizes costs to develop or obtain internal-use software and costs of significant upgrades and enhancements resulting in additional functionality of internal-use software in accordance with ASC 350-40 (“ASC 350-40”), *Internal-Use Software*. Costs incurred for internally developed internal-use software used for a particular research and development project are expensed as incurred, regardless of whether the software has alternative future uses. Costs incurred for maintenance, training, and minor modifications or enhancements are also expensed as incurred. Capitalized software development costs are amortized on a straight-line basis over the estimated useful life of the applicable software. Capitalized software development costs have not been material for the periods presented.

The Group also incurs cost to develop software embedded in its products. The software components cannot function or be sold separately from the UAV as a whole. The Group accounts for costs incurred in the development of software embedded in its products in accordance with ASC 985-20 (“ASC 985-20”), *Costs of Software to be Sold, Leased, or Marketed*. Such software development costs consist primarily of salaries and related payroll costs and are capitalized once technological feasibility is established, which is when a completed detail program design or in the absence of a completed detail program design, a working model of the product is available. As a result, capitalized software development costs were immaterial for the years ended December 31, 2022, 2023 and 2024.

(y) Leases

The Group leases facilities under non-cancellable operating leases expiring on different dates. On January 1, 2022, the Group adopted ASU No.2016-02(Topic 842) “*Leases*” using the modified retrospective transition method, and results and disclosure requirements for reporting periods beginning after January 1, 2022 are presented under Topic 842. Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases. A contract is or contains a lease if the contract conveys the right to control the use of identified property or equipment (an identified asset) for a period of time in exchange for consideration. The Group determines whether a contract conveys the right to control the use of an identified asset for a period of time by assessing whether the Group has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(y) Leases (Continued)

The Group has elected not to present short-term leases on the consolidated balance sheet as these leases have a lease term of 12 months or less at commencement date of the lease and do not include options to purchase or renew that the Group is reasonably certain to exercise. The Group accounts for short-term leases with terms less than 12 months in accordance with ASC 842-20-25-2 to recognize the lease payments in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The adoption of the standard did not have a significant impact on the Group’s net assets and the consolidated statement of comprehensive loss.

Operating leases are included in right-of-use assets, current lease liabilities and non-current lease liabilities on the consolidated balance sheet. Renewal options are considered within the right-of-use assets and lease liability when it is reasonably certain that the Group will exercise that option.

The Group elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Group to carry forward the historical determination of contracts as leases, lease classification and not reassess initial direct costs for historical lease arrangements. In addition, the Group also elected the practical expedient to apply consistently to all of the Group’s leases to use hindsight in determining the lease term (that is, when considering lessee options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of the Group’s right-of-use assets.

The Group has lease agreements with lease and non-lease components, and has elected to utilize the practical expedient to account for the non-lease components together with the associated lease component as a single combined lease component.

As most of the Group’s leases do not provide an implicit rate, the Group uses its incremental borrowing rate based on the information available at lease commencement date in determining the present value of lease payments. The incremental borrowing rate is a hypothetical rate based on the Group’s understanding of what its credit rating would be to borrow and resulting interest the Group would pay to borrow an amount equal to the lease payments in a similar economic environment over the lease term on a collateralized basis.

(i) Right-of-use assets

Right-of-use assets, which mainly comprise of office and production facilities, are initially measured at the present value of the lease payments. Amortization of the right-of-use assets is made over the lease term on a generally straight-line basis.

(ii) Lease liabilities

Lease liabilities are lessees’ obligations to make the lease payments arising from a lease, measured on a discounted basis.

As a lessee, the weighted average remaining lease terms of the right-of-use assets was 13 years, as of December 31, 2024, the discount rate for the lease is the rate implicit in the lease unless that rate cannot be readily determined and the weighted-average discount rate of the operating lease was 4.20%.

For the years ended December 31, 2022, 2023 and 2024, operating lease cost were RMB13,986, RMB11,527 and RMB11,227 (US\$1,538), and short-term lease cost were RMB305, RMB172 and RMB100 (US\$14), respectively. There was no other lease cost other than operating lease cost and short-term lease cost for each of the periods presented. For the years ended December 31, 2022, 2023 and 2024, cash paid for operating leases included in operating cash flows were RMB11,164, RMB6,877 and RMB7,383 (US\$1,011), respectively. For the years ended December 31, 2022, 2023 and 2024, leased assets obtained in exchange for operating lease liabilities was RMB64,869, RMB9,127 and RMB60,590 (US\$8,301), respectively.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(y) Leases (Continued)

(ii) Lease liabilities (Continued)

A maturity analysis of the Company’s operating lease liabilities and reconciliation of the undiscounted cash flows to the operating lease liabilities recognized on the consolidated balance sheet was as below:

	Office and production facilities rental	
	As of December 31, 2024	
	RMB	US\$
2025	12,802	1,754
2026	15,287	2,094
2027	14,785	2,026
2028	14,473	1,983
2029	12,541	1,718
2030 and thereafter	116,837	16,007
Minimum lease payments	186,725	25,582
Less: imputed interest	(48,479)	(6,643)
Present value of lease liabilities	138,246	18,939
Less: Current portion	(12,527)	(1,716)
Non-current portion of lease liabilities	125,719	17,223

(z) Government subsidies

Government subsidies primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. The government subsidies of operating nature with no further conditions to be met are recorded in “other operating income” when received. The government subsidies with certain operating conditions are recorded as “deferred government subsidies” on the consolidated balance sheets when received and are recorded as operating income when the conditions are met.

For the years ended December 31, 2022, 2023 and 2024, other operating income mainly represents government grants that recognized upon receipt immediately in profit or loss of RMB6,094, RMB6,233 and RMB29,869 (US\$4,092), respectively, as no further performance or conditions is required.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(aa) Income taxes

The Group follows the liability method of accounting for income taxes in accordance with ASC 740 (“ASC 740”), *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Group accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of comprehensive loss as income tax expense.

(ab) Share-based compensation

The Group applies ASC 718 (“ASC 718”), *Compensation—Stock Compensation* to account for its employee share-based payments. In accordance with ASC 718, the Group determines whether an award should be classified and accounted for as a liability award or an equity award. All of the Group’s share-based awards granted to employees were classified as equity awards.

The Group has elected to recognize compensation expense using the straight-line method for share-based awards granted with service conditions that have a graded vesting schedule. Prior to the completion of the IPO, with the assistance of an independent third-party valuation firm, the group determined the grant date fair value of the awards granted to employees. Subsequent to the completion of the IPO, share-based awards granted were measured based on the fair value of ordinary share as of grant date. The Group accounts for forfeitures as they occur.

A change in any of the terms or conditions of share-based payment awards is accounted for as a modification of awards. The Group measures the incremental compensation cost of a modification as the excess of the fair value of the modified awards over the fair value of the original awards immediately before its terms are modified, based on the share price and other pertinent factors at the modification date. For vested awards, the Group recognizes incremental compensation cost in the period the modification occurred. For unvested awards, the Company recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified award is lower than the fair value of the original award immediately before modification, the minimum compensation cost the Group recognizes is the cost of the original award.

The Group doesn’t reflect reload features and contingent features in the grant-date fair value of an equity award. Reload features and contingent features are that require a grantee to transfer equity shares earned, or realized gains from the sale of equity instruments earned, to the issuing entity for consideration that is less than fair value on the date of transfer (including no consideration), such as a claw back feature. The Group accounted for these features if and when the contingent event occurs by recognizing the consideration received in the corresponding balance sheet account and a credit in the income statement equal to the lesser of the recognized compensation cost of the share-based payment arrangement that contains the contingent feature and the fair value of the consideration received, and debits in additional paid-in capital, and treasury shares, if any.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(ac) Employee benefit expenses

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund, maternity insurance and employment injury insurance are provided to employees. Chinese labor regulations require that PRC subsidiaries and VIEs of the Group make contributions to the government for these benefits based on certain percentages of the employees’ salaries. The Group has no legal obligation for the benefits beyond the contributions. The total expenses the Group incurred for the plan were RMB12,361, RMB13,298 and RMB15,751 (US\$2,158) for the years ended December 31, 2022, 2023 and 2024, respectively.

(ad) Statutory reserve

The Group’s PRC entities are required to make appropriations to certain non-distributable reserve funds.

In accordance with the laws applicable to China’s Foreign Investment Enterprises, the Group’s subsidiaries registered as WFOEs have to make appropriations from its after-tax profit (as determined under the Accounting Standards for Business Enterprises as promulgated by the Ministry of Finance of the People’s Republic of China (“PRC GAAP”)) to reserve funds including general reserve fund, and staff bonus and welfare fund. The appropriation to the general reserve fund must be at least 10% of the after-tax profits calculated in accordance with PRC GAAP. Appropriation is not required if the reserve fund has reached 50% of the registered capital of the company. Appropriation to the staff bonus and welfare fund is at the company’s discretion.

In addition, in accordance with the Company Laws of the PRC, the Group’s entities registered as PRC domestic companies must make appropriations from its after-tax profit as determined under the PRC GAAP to non-distributable reserve funds including a statutory surplus fund and a discretionary surplus fund. The appropriation to the statutory surplus fund must be at least 10% of the after-tax profits as determined under the PRC GAAP. Appropriation is not required if the surplus fund has reached 50% of the registered capital of the company. Appropriation to the discretionary surplus fund is made at the discretion of the company.

The use of the general reserve fund, statutory surplus fund and discretionary surplus fund are restricted to the off-setting of losses or increasing capital of the respective company. The staff bonus and welfare fund are a liability in nature and is restricted to fund payments of special bonus to staff and for the collective welfare of employees. All these reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor can they be distributed except under liquidation.

For the years ended December 31, 2022, 2023 and 2024, appropriations to general reserve fund and statutory surplus fund amounted to nil, RMB48 and RMB533 (US\$73) respectively.

(ae) Comprehensive income (loss)

Comprehensive income (loss) is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive income (loss) be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group’s comprehensive income (loss) includes net loss and foreign currency translation adjustments.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(af) Dividends

Dividends are recognized when declared. No dividends were declared for the years ended December 31, 2022, 2023 and 2024, respectively.

(ag) Loss per share

In accordance with ASC 260 (“ASC 260”), *Earnings per Share*, basic loss per share is computed by dividing net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net loss is allocated between ordinary shares, and other participating securities based on their participating rights.

For the years ended December 31, 2022, 2023 and 2024, the two-class method is applicable because the Group has two classes of ordinary shares outstanding, Class A and Class B ordinary shares, respectively. The participating rights (liquidation and dividend rights) of the holders of the Company’s Class A and Class B ordinary shares are identical, except with respect to voting and conversion (Note 18). As a result, and in accordance with ASC 260, the undistributed loss for each year is allocated based on the contractual participation rights of the Class A and Class B ordinary shares, respectively. As the liquidation and dividend rights are identical, the undistributed loss is allocated on a proportionate basis.

Ordinary equivalent shares consist of unvested restricted shares units, and ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method). Ordinary equivalent shares are excluded from the computation of diluted loss per share for all periods presented as their effects would be anti-dilutive.

(ah) Short-term debt

In 2022, the Group entered into a share purchase agreement (the “SPA”) with an investor (the “Investor”) to issue predetermined number of Class A ordinary shares (the “Underlying Shares”) of the Company, at a fixed consideration in US\$ (the “Private Placement”), upon meeting the specified preconditions, of which the substantial one is the Investor obtaining the Outbound Direct Investment (“ODI”) approval.

A transitional agreement has been reached to supplement the Private Placement (the “Supplemental Agreement”), according to which before the ODI approval, the Investor provided RMB proceeds (the “RMB Proceeds”) as an interim funding, equivalent to consideration in U.S. dollar of the Private Placement, to the designated subsidiary of the Company.

The RMB Proceeds and associated subsequent repayment obligation was accounted for as a liability to the Company, since:

(i) The RMB Proceeds are a loan provided by the Investor to the subsidiary of the Company under the Supplemental Agreement. The Investor is entitled to receive the money back after at least three months if the ODI approval is not obtained due to force majeure or other situations agreed by the Company and Investor.

(ii) Upon the occurrence of dissolution, windup or liquidation of the onshore subsidiary, the Investor could claim its creditor right in accordance with PRC bankruptcy law.

Therefore the instrument is accounted for as a short-term debt under ASC 470, *Debt*. As of December 31, 2023, the short-term debt was repaid.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(ai) Warrants

According to the SPA, the Company issued a purchase right to the Investor under which the Company will issue predetermined ordinary shares for a fixed cash consideration at a future date (the “Warrants”).

The Warrants were accounted for as equity instruments to the Company, since:

- i) The Warrants were indexed to the Company’s own stock, since:
 - The Warrants will be exercised upon the ODI approval, which is not based on an observable market, or an observable index.
 - The exercise price is fixed by the SPA and Supplement Agreement, and the number of Underlying Shares to be issued is also fixed divided by the fixed purchase price per share.
- ii) The Warrants were classified in shareholders’ equity, since:
 - The Warrants will be settled only by gross physical delivery of ordinary shares by the Company.
 - The Company has the ability to settle the Private Placement in ordinary shares.
 - The number of Underlying Shares to be issued is explicitly fixed at the total consideration divided by the fixed purchase price per share, with no adjustment provision.
 - No requirement for cash settlement in the agreements.
 - There are no cash settled top-off or make-whole provisions.

The Group received the Proceeds and issued short-term debt and Warrants in a bundled transaction. The RMB Proceeds shall be allocated to the two elements based on the relative fair values of the debt instrument without the Warrants and of the Warrants themselves at time of issuance. The portion of the RMB Proceeds so allocated to the Warrants shall be accounted for as additional paid-in capital. The remainder of the proceeds shall be allocated to the debt instrument portion of the transaction, the short-term debt. This results in a discount which shall be accounted for as interest expense in the following months.

On January 1, 2022, The Group has elected to early adopt the ASU No. 2020-06, *Debt— Debt with Conversion and Other Options* (Subtopic 470-20) and *Derivatives and Hedging—Contracts in Entity’s Own Equity* (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (ASU 2020-06), which simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments. This adoption of the new guidance had no material impact on the treatment of the warrants or short-term debt in Note 2(ah).

The Group entered into an SPA with similar terms of 2022 SPA with a third-party investor and received a short-term debt of RMB90,000 in June 2024 and repaid the debt in November 2024.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(aj) Segment reporting

In November 2023, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker (“CODM”) and included within each reported measure of a segment’s profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment’s profit or loss in assessing segment’s performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. The Group has adopted this ASU retrospectively on January 1, 2024.

In accordance with ASC 280 (“ASC 280”), *Segment Reporting*, operating segments are defined as components of an enterprise about which separate financial information is available that is provided regularly to the CODM, or decision-making group, in deciding how to allocate resources and in assessing performance. The Group’s Chief Executive Officer as the CODM reviews the consolidated revenues, gross profit and net loss, using only one measure of a segment’s profit or loss when making decisions about allocating resources and assessing the performance of the Group. As a whole and hence, the Group has only one reportable segment. The Group’s long-lived assets are substantially all located in the PRC.

For the operating results of segment provided to and reviewed by CODM, please refer to the consolidated statements of comprehensive loss.

The following table presents revenue by customer incorporation location for the years ended December 31, 2022, 2023 and 2024, respectively:

	For the year ended December 31,						
	2022		2023		2024		
	RMB	%	RMB	%	RMB	US\$	
PRC	33,975	77%	96,580	82%	431,338	59,093	95%
West Asia	4,630	10%	9,188	8%	14,485	1,985	3%
East Asia	798	2%	6,018	5%	3,028	415	1%
North America	—	—	—	—	2,616	358	1%
South America	—	—	4,729	4%	2,513	344	0%
West Africa	—	—	—	—	1,851	254	0%
Europe	2,638	6%	501	1%	321	44	0%
Other	2,276	5%	410	0%	—	—	—
Total net revenues	44,317	100%	117,426	100%	456,152	62,493	100%

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

2. Summary of Significant Accounting Policies (Continued)

(ak) Development and purchase cooperative arrangement

In April 2016, the Group entered into a development and purchase cooperative arrangement with a U.S. biotechnology company (“Biotech Customer”) to design, develop, test-run and manufacture an organ transport e-helicopter system, which includes an operational interface with air traffic control, associated customized passenger-grade UAVs and recharging infrastructure. The Biotech Customer is responsible for obtaining the approvals of the Federal Aviation Administration (“FAA”) and the Food and Drug Administration (“FDA”) relating to the import and operations of the UAV products. Upon the Group’s achievement of agreed-upon milestones in the agreement, Biotech Customer will make investments of US\$14,000 and payments totaling US\$36,000. The agreement may be terminated at Biotech Customer’s discretion upon written notice. In February 2019, although the first milestone was not yet achieved, the Group and the Biotech Customer entered into an amendment whereby the Biotech Customer made the initial investment of US\$7,000 (RMB 48,733 equivalent) to subscribe for 1,189,397 Series C redeemable convertible preferred shares of the Company in full satisfaction of its obligation to invest in the Group following the successful attainment of the first milestone, and all other terms and conditions of the agreement remain unchanged. As of December 31, 2024, none of the milestones have been achieved and the agreement, as amend, remains in effect.

As part of the same arrangement, the Group may sell 1,000 units of customized UAVs with the organ transport e-helicopter system conforming to the functional specifications by the Biotech Customer for according to a 15-year delivery schedule subject to subsequent purchase amendments. Purchase orders are conditional on the Group achieving a number of performance milestones and the Biotech Customer obtaining required approvals from the FAA and FDA for the internal testing of the UAVs. In December 2018, two amendment contracts were signed to specify the sale of five units of passenger-grade UAVs by the Group to the Biotech Customer for the latter’s testing and training purposes in partial satisfaction of the original agreement. Three units of the UAVs were delivered in 2020 and no UAV was delivered for each of the three years in the period ended December 31, 2024.

(al) Recent accounting pronouncements

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2023-09, Improvements to Income Tax Disclosures (Topic 740). The ASU requires disaggregated information about a reporting entity’s effective tax rate reconciliation as well as additional information on income taxes paid. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. Early adoption is also permitted for annual financial statements that have not yet been issued or made available for issuance. This ASU will result in the required additional disclosures being included in the Group’s consolidated financial statements, once adopted. The Group is currently evaluating the impact of the new guidance on its consolidated financial statements.

In November 2024, the FASB issued ASU No. 2024-03, Disaggregation of Income Statement Expenses (Subtopic 220-40). The ASU requires the disaggregated disclosure of specific expense categories, including purchases of inventory, employee compensation, depreciation, and amortization, within relevant income statement captions. This ASU also requires disclosure of the total amount of selling expenses along with the definition of selling expenses. The ASU is effective for annual periods beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Adoption of this ASU can either be applied prospectively to consolidated financial statements issued for reporting periods after the effective date of this ASU or retrospectively to any or all prior periods presented in the consolidated financial statements. Early adoption is also permitted. This ASU will likely result in the required additional disclosures being included in our consolidated financial statements, once adopted. The Group is currently evaluating the impact of the new guidance on its consolidated financial statements.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

3. Concentration of Risks

(a) Concentration of credit risk

Financial instruments that potentially subject the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, restricted short-term deposit, short-term deposit, short-term investments. As of December 31, 2023 and 2024, substantially all of the Group’s cash and cash equivalents, restricted short-term deposit, short-term deposit, short-term investments were placed with certain reputable financial institutions in the PRC and overseas. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates. Management believes that these financial institutions are of high credit quality and continually monitors the credit worthiness of these financial institutions. Historically, deposits in Chinese banks are secure due to the state policy on protecting depositors’ interests. The Group selected reputable international financial institutions with high credit ratings to deposit its foreign currencies. The Company regularly monitors the credit ratings of the international financial institutions to avoid any potential defaults. In the event of bankruptcy of one of these financial institutions, the Group may not be able to claim its cash and demand deposits back in full. The Group continues to monitor the financial strength of the financial institutions. There has been no recent history of default in relation to these financial institutions.

(b) Business supplier risk

The Group relies on external supplies for raw materials and certain components and parts used in the Group’s products. Some of the components for UAVs are currently selected to be purchased from a single source to improve cost-efficiency.

Suppliers accounting for 10% or more of total purchases of materials were:

Supplier	For the year ended December 31,			
	2022 RMB	2023 RMB	2024 RMB	US\$
A	*	*	22,576	3,093
B	3,056	4,681	*	*
C	*	3,647	*	*

* less than 10% of total purchase of materials of the Group.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

3. Concentration of Risks (Continued)

(c) Customer risk

The success of the Group’s business going forward will rely in part on the Group’s ability to continue to obtain and expand its business from existing customers while also attracting new customers. For the year end December 31, 2024, the majority of the Group’s revenue generated from sales of passenger-grade UAVs are from a limited number of customers that mainly operate the UAVs on a limited trial basis in tourism locations in China, rather than in broad, mainstream commercial operations.

External customers with 10% or more of the Group’s revenues are:

	For the year ended December 31,			
	2022 RMB	2023 RMB	2024 RMB	US\$
Customer				
A	*	*	120,796	16,549
B	*	*	100,000	13,700
C	*	*	63,451	8,693
D	9,217	*	*	*
E	5,611	*	*	*
F	4,630	*	*	*
G	*	28,673	*	*
H	*	11,752	*	*

* less than 10% of total revenues of the Group.

As of December 31, 2023 and 2024, accounts receivable, net of allowances, from the top two customers amounted to RMB18,749 and from the top three customers amounted to RMB49,373 (US\$6,764), accounting for 54% and 85% of the Group’s total balance, respectively.

(d) Currency convertibility risk

The Group primarily transacts its business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People’s Bank of China (the “PBOC”). However, the unification of the exchange rates does not imply that the RMB may be readily convertible into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

3. Concentration of Risks (Continued)

(e) Foreign currency exchange rate risk

The Group is exposed to foreign currency exchange rate risk, which mainly affects the monetary assets denominated in the currencies other than the functional currencies of the respective entities. Since July 21, 2005, the RMB has been permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The functional currency and the reporting currency of the Company are the US\$ and the RMB, respectively. Most of the Group’s revenues and costs are denominated in RMB, while a portion of cash and cash equivalents, short-term deposits, restricted short-term deposits, short-term investments, accounts receivable and accounts payable are denominated in US\$. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

4. Short-term Investments

Short-term investments as of December 31, 2023 and 2024 consisted of the following:

	As of December 31, 2023				
	Cost	Gross unrealized gains	Gross unrealized losses	Foreign currency exchange losses	Fair value carrying amount
	RMB	RMB	RMB	RMB	RMB
Wealth management products	56,694	806	—	(6)	57,494

	As of December 31, 2024				
	Cost	Gross unrealized gains	Gross unrealized losses	Foreign currency exchange gains	Fair value carrying amount
	RMB	RMB	RMB	RMB	RMB
Wealth management products	503,733	4,885	—	5,065	513,683

The Group’s short-term investments are primarily investments in trading instruments issued by oversea reputable financial institutions.

For the years ended December 31, 2022, 2023 and 2024, the Group recognized interest and investment income of RMB2,771, RMB806 and RMB10,177 (US\$1,394) from short-term investments, respectively.

5. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

	As of December 31,		
	2023	2024	US\$
	RMB	RMB	
Accounts receivable	166,612	161,520	22,129
Less: expected credit losses provision	(131,826)	(103,340)	(14,158)
Accounts receivable, net	<u>34,786</u>	<u>58,180</u>	<u>7,971</u>

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

5. Accounts Receivable, Net (Continued)

The movement in the expected credit losses were:

	<u>For the year ended December 31,</u>		
	<u>2023</u>	<u>2024</u>	
	RMB	RMB	US\$
Beginning balance prior to ASC 326	(115,380)		
Adoption of ASC Topic 326	(1,153)		
Balance at beginning of the year	(116,533)	(131,826)	(18,061)
Current period provision	(16,170)	(12,725)	(1,743)
Reversal	1,773	6,039	827
Write-off	—	35,180	4,820
Provision converted from unbilled revenue	(1,269)	—	—
Acquisition of non-controlling interests	390	—	—
Foreign currency translation	(17)	(8)	(1)
Balance at the end of the year	<u>(131,826)</u>	<u>(103,340)</u>	<u>(14,158)</u>

The movements in the allowance for doubtful accounts was:

	<u>For the year ended</u>	
	<u>December 31,</u>	
	<u>2022</u>	
	RMB	
Balance at beginning of the year	(69,417)	
Current period provision	(46,098)	
Reversal	53	
Foreign currency translation	82	
Balance at the end of the year	<u>(115,380)</u>	

6. Inventories

Inventories consisted of the following:

	<u>As of December 31,</u>		
	<u>2023</u>	<u>2024</u>	
	RMB	RMB	US\$
Raw materials	45,471	45,319	6,209
Work in progress	7,900	9,043	1,239
Finished goods	15,333	30,405	4,165
Inventories, total	68,704	84,767	11,613
Inventories provision	(9,216)	(9,080)	(1,244)
	<u>59,488</u>	<u>75,687</u>	<u>10,369</u>

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

7. Prepayments and Other Current Assets

Prepayments and other current assets consisted of the following:

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$
Deductible value-added tax input	9,022	22,706	3,111
Prepayment for acquisition of inventories	2,168	20,048	2,747
Deposits	1,373	16,082	2,203
Prepayment for service	6,702	6,733	922
Prepayment for an equity investment	—	2,000	274
Foreign exchange forward contract	1,743	8	1
Loans receivable – current portion (Note 9)	2,163	—	—
Others	1,520	721	98
	<u>24,691</u>	<u>68,298</u>	<u>9,356</u>

As of December 31, 2023 and 2024, expected credit loss provision related to other receivables were recognized amounting to RMB695 and RMB7,082 (US\$970), respectively.

8. Property and Equipment, Net

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$
Leasehold improvements	35,018	30,236	4,142
Machinery and electronic equipment	32,725	36,268	4,969
Construction in progress	1,524	16,985	2,327
Mold and tooling	4,398	6,190	848
Transportation equipment	3,520	4,224	579
Office equipment	2,237	1,980	271
	<u>79,422</u>	<u>95,883</u>	<u>13,136</u>
Less: accumulated depreciation	(33,339)	(34,199)	(4,685)
Less: accumulated impairment	(1,460)	(1,460)	(200)
	<u>44,623</u>	<u>60,224</u>	<u>8,251</u>

For the years ended December 31, 2022, 2023 and 2024, the Group recorded depreciation expense of RMB8,478, RMB12,442 and RMB12,774 (US\$1,750), respectively.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

9. Long-Term Loans Receivable

In January 2020, the Group entered into a three-year loan agreement with a third-party supplier of key UAV components with a principal amount of RMB52,000 and an interest rate of 3% per annum. The use of the loan proceeds is limited to expanding the supplier’s production capacity. This long-term loan can be repaid by the borrower at any time. The outstanding loan balance was guaranteed by the borrower’s sole shareholder and his spouse and would mature in January 2023. In 2020, RMB40,000 of the loan’s principal was repaid by the borrower. In March 2023, the Group entered into a supplementary agreement with the borrower to extend the term of the outstanding loan of RMB12,000 as follows: (1) RMB2,000 of the outstanding amount is extended to September 30, 2023. (2) RMB2,000 of the outstanding amount is extended to December 31, 2023. (3) RMB8,000 of the outstanding amount is extended to March 9, 2025. In 2023, RMB1,700 was repaid by the borrower in cash and a supplemental agreement was entered into to offset RMB5,800 with the Group’s accounts payable to the borrower. The Group had an outstanding loan balance of RMB4,500 and current expected credit losses of RMB285 as of December 31, 2023. As of December 31, 2024, the outstanding loan balance of RMB4,500 (US\$616) matures within one year was reclassified to current assets in prepayments and other current assets. Up to date of the issuance of the financial statements, the borrower did not repay the loan, the Group made additional provision of RMB4,215 (US\$577) against the total balance of RMB4,500(US\$616).

In March 2020, the Group provided a two-year loan to a third-party entity with a principal amount of euro 243 (equivalent to RMB1,900) and an interest rate of 3.5% per annum. In March 2022, the Group entered into a supplementary agreement with the third-party entity to extend the term of the loan by two years. The use of the loan proceeds is limited to assisting the Group in applying necessary permits from a European country’s aviation authority for the commercial operations of UAVs in this country. As of December 31, 2023, RMB2,163 matures within one year was reclassified to current assets in prepayments and other current assets (Note 7). Up to date of the issuance of the financial statements, the third-party entity did not repay the loan, the Group made full provision of RMB2,086 (US\$286).

For the years ended December 31, 2022, 2023 and 2024, the Group recognized interest income of RMB423, RMB74 and nil (US\$0) from the long-term loans receivable, respectively.

10. Long-term Investments

	Equity method investments RMB	Equity investments without readily determinable fair values RMB	Debt security investments RMB	Total RMB
Balance as of December 31, 2022	6,920	2,919	—	9,839
Additions	8,090	—	2,000	10,090
Shares of results of equity method investees	(1,560)	—	—	(1,560)
Balance as of December 31, 2023	13,450	2,919	2,000	18,369
Additions	14,800	4,600	—	19,400
Shares of results of equity method investees	(4,353)	—	—	(4,353)
Fair value gain	—	—	348	348
Balance as of December 31, 2024	23,897	7,519	2,348	33,764

Equity method investments

- (a) In June 2021, the Group and a third-party investor jointly set up an entity for the purpose of developing the local urban air mobility and smart city operations in Guangzhou, Guangdong Province. The Group subscribed for a commitment of RMB10,500 and holds 35% of the investee’s equity interests. As of December 31, 2024, the Group has contributed aggregated cash consideration of RMB7,000 (US\$959). The Group holds board seats to enable it can exercise significant influence over the operating and financial policies of the investee. Therefore, the equity investment is accounted for using the equity method. Pursuant to the payment schedule of capital contribution as set out in the investment agreement, RMB3,500 (US\$479) is recorded as investment payable in accrued expenses and other liabilities (Note 11) as of December 31, 2024.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

10. Long-term Investments (Continued)

Equity method investments (Continued)

- (b) In 2024, the Group and several third-party investors entered into investment agreements to jointly set up entities to promote local low-altitude transportation and tourism products in Anhui Province, Jiangsu Province, Guangdong Province and Zhejiang Province, respectively. For the year ended December 31, 2024, the Group invested total cash consideration of RMB13,050 (US\$1,788) and holds the investee's equity interests with a range from 19% to 31%. The Group holds board seats enable it can exercise significant influence over the operating and financial policies of the investees. Therefore, the equity investments are accounted for using the equity method.

For the years ended December 31, 2022, 2023 and 2024, the Group recognized income (losses) of RMB196, RMB(1,560) and RMB(4,353) (US\$(596)) from equity method investment, respectively. None of the Group's equity method investments was significant to the Group's financial position and results of operations.

Equity investments without readily determinable fair values

In 2017, the Group assisted a third party in acquiring a land use right from the Guangzhou City government. In return for the Group's assistance services, the Group received a cash consideration of RMB41,117 and 5% equity interests in an entity, whose sole asset is the aforementioned land use right. The Group elected to use the measurement alternative to measure this investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. As of December 31, 2023 and 2024, the carrying value of this investment was RMB2,919 and RMB2,919 (US\$400), respectively.

In 2024, the Group and a third-party vendor entered into an investment agreement to jointly invest in an entity principally engaging in research and development of power cells and batteries for electric vertical take-off and landing aircraft. The Group holds 4.12% equity interests and has no significant influence on investee's business operations and financial decisions. The Group elected to use the measurement alternative to measure this investment at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. As of December 31, 2024, the carrying value of this investment was RMB4,600 (US\$630).

Debt security investments

In September 2023, the Group acquired minority equity interests with redemption right in a solid-state lithium metal battery technology company for a total cash consideration of RMB2,000. The ordinary shares are redeemable at the option of the Group if the investee fails to launch the initial public offering by June 30, 2031. The Group elected to account for the investment at fair value option and recognized the fair value change of RMB348 (US\$48) for the year ended December 31, 2024.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

11. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$
Payroll and welfare payables	47,583	62,548	8,569
Other taxes payables	7,702	38,770	5,311
Payables for service fees	15,829	22,760	3,118
Product warranty liabilities (a)	2,833	9,953	1,364
Government subsidy	5,000	5,000	685
Consideration payable to an equity method investment (Note 10)	1,750	3,500	479
Payables for acquisition of property and equipment	710	1,329	182
Accrued interests	569	719	99
Provision for litigation settlement (b)	5,976	—	—
Others	6,197	5,617	770
	<u>94,149</u>	<u>150,196</u>	<u>20,577</u>

(a) A reconciliation of the changes in the Group’s product warranty liability is as follows:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Balance at the beginning of the year	4,758	3,780	3,886	533
Accruals during the year	880	2,410	12,232	1,676
Claims during the year	(661)	(594)	(124)	(17)
Reversal during the year	(1,197)	(1,710)	(1,502)	(206)
Balance at the ending of the year	3,780	3,886	14,492	1,986
Less: Non-current portion of warranty	(474)	(1,053)	(4,539)	(622)
Current portion of warranty	<u>3,306</u>	<u>2,833</u>	<u>9,953</u>	<u>1,364</u>

(b) A former employee of the Company’s former U.S. subsidiary, EHang, Inc., filed a civil lawsuit against the Company, EHang GZ and certain individual defendants, including Mr. Huazhi Hu, chairman and chief executive officer of the Company, in the United States District Court for the Northern District of California. The plaintiff alleged that he was entitled to receive restricted share units from the Company.

On April 25, 2023, the parties entered into a settlement agreement involving a total payment to the former employee of US\$3,375 in four equal quarterly installments within one year. Corresponding amount of the settlement was recognized in other non-operating expenses for the year ended December 31, 2022. As of December 31, 2023, the Group has outstanding settlement payment of US\$844, which was paid to the former employee in the first quarter of 2024.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

12. Bank Loans

As of December 31, 2023 and 2024, certain bank loans were pledged by some of Group’s intellectual property rights.

Short-term bank loans

In 2023, the Group obtained guaranteed bank loans amounting to RMB69,090 from several financial institutions in the PRC. The weighted average effective interest rate of the short-term bank loans was 3.3% per annum. The loans are repayable within one year with interests paid on a monthly or quarterly basis and guaranteed by the Group’s founder and director, Mr. Huazhi Hu.

In 2024, the Group obtained guaranteed bank loans amounting to RMB34,472 (US\$4,722) from several financial institutions in the PRC. The weighted average effective interest rate of the short-term bank loans was 3.6% per annum. The loans are repayable within one year with interests paid on a monthly or quarterly basis and guaranteed by the Group’s founder and director, Mr. Huazhi Hu.

For the year ended December 31, 2024, the Group has repaid above borrowings of RMB69,090 (US\$9,465).

On 30 April 2024, the Group obtained a loan guaranteed by letter of credit amounting to RMB29,778 (US\$4,080). The weighted average effective interest rate on short-term bank loan is 2.2% per annum. The loan is repaid within one year with interest recognized monthly.

Long-term bank loans

In 2023, the Group entered into long-term agreements with a bank in the PRC of total principals of RMB10,000, subject to an effective interest rate of 3.8% per annum, and with a maturity date on 20 September 2025.

In 2024, the Group entered into long-term agreements with two banks in the PRC of total principals of RMB25,000 (US\$3,425), subject to effective interest rates of 3.0% per annum and 2.9% per annum, with maturity dates on 24 March 2027 and on 14 December 2027;

As of December 31, 2023 and 2024, the principal amount of RMB 3,538 and RMB10,500 (US\$1,438), respectively, was due within 12 months after the balance sheet date and presented as current liabilities in the consolidated balance sheet.

The combined aggregate amounts of maturities and sinking fund requirements for each of the five years are as follows:

	As of December 31,		
	2023	2024	
	RMB	RMB	US\$
Less than 1 year	3,538	10,500	1,438
Between 1 and 2 years	8,538	3,500	479
Between 2 and 3 years	770	17,000	2,329
	<u>12,846</u>	<u>31,000</u>	<u>4,246</u>

The carrying value of the long-term bank loans approximates its fair value as of December 31, 2023 and 2024. The interest rates under the loan agreements with the banks were determined based on the prevailing interest rates in the market.

Certain Group’s banking facilities are subject to the fulfilment of certain financial covenants, including gearing ratio. The Group regularly monitors its compliance with these covenants. As of December 31, 2023 and 2024, none of the covenants was breached.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

13. Mandatorily Redeemable Non-controlling Interests

On June 15, 2020, the Group established a subsidiary named EHang Yunfu (Note 1). On June 30, 2020, the Group entered into an agreement with a new investor who subscribed 30% of the equity interests of EHang Yunfu for cash consideration of RMB40,000. At the sole discretion of the investor, the Group is obligated to repurchase the 30% non-controlling interest or with the consent of the investor, guarantee a third-party to repurchase the 30% non-controlling interests at the investor’s investment cost at the end of the five-year investment term. The non-controlling interests do not participate in any dividend distributions of EHang Yunfu but earn an after-tax interest of 1.5% per year, payable on a quarterly basis. Interest payable amounted to nil and RMB150 (USD\$21) as of December 31, 2023 and 2024, respectively. As EHang Yunfu’s non-controlling interests are mandatorily redeemable at the sole discretion of the investor, it is classified as liability and subsequently measured at the amount that would be paid if settlement occurred at the reporting date.

The carrying value of Mandatorily redeemable non-controlling interests approximates its fair value as of December 31, 2023 and 2024.

14. Revenues

The following table presents the disaggregation of revenue from contracts with the customers:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Revenues - Products				
Air mobility solutions	38,061	99,470	439,533	60,216
Others	2,714	1,490	1,108	152
Subtotal-Products	<u>40,775</u>	<u>100,960</u>	<u>440,641</u>	<u>60,368</u>
Revenues - Services				
Air mobility solutions	2,326	5,259	3,787	519
Others	1,216	11,207	11,724	1,606
Subtotal-Services	<u>3,542</u>	<u>16,466</u>	<u>15,511</u>	<u>2,125</u>
Total Revenues	<u><u>44,317</u></u>	<u><u>117,426</u></u>	<u><u>456,152</u></u>	<u><u>62,493</u></u>

Payment terms

For the Group’s Air mobility solutions and Aerial media solutions, the Group typically requires a portion of payments upfront and the remaining amounts are contractually due ranging from three to six months. Regarding the Smart city management solutions, the timing of billing varies depending on contractual payment schedules with milestone billings and the completion of the quality-assurance warranty period. In instances where the timing of revenue recognition differs from the timing of invoicing, the Group has determined that its contracts do not include a significant financing component at the inception of the contracts.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

14. Revenues (Continued)

Contract balances

Contract balances include accounts receivable and unbilled revenue. Accounts receivable represents the billed and unbilled amounts related to the Company’s rights to consideration as performance obligations are satisfied and the rights to payment become unconditional but for the passage of time. In 2022, the decrease in accounts receivable was mainly due to cash receipt from customers and impairment of balances amounted to RMB46,045 recorded in the general and administrative expenses in the Group’s consolidated statements of comprehensive loss. In 2023 and 2024 the increase in accounts receivable was mainly due to the increase in sales during the year. The unbilled revenue was derived from sales of certain passenger-grade UAVs but unbilled. The receipt of the consideration is subject to conditions other than the passage of time, which is included in prepayments and other current assets.

Contract liabilities represent payments received from customers for which the corresponding products or services have not yet been transferred to customers. In 2023, the increase in contract liabilities was primarily contributed by advance from customers of sales of passenger-grade UAVs. Revenue of RMB16,118 (US\$2,208) was recognized during the year ended December 31, 2024 from the balance included in the contract liabilities on January 1, 2024.

15. Share-based Compensation

In order to provide additional incentives to employees and to promote the success of the Group’s business, the Group adopted a share incentive plan that was approved by the Board of Directors on December 23, 2016 (the 2015 Plan). As of the date of December 31, 2024, under the 2015 Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to all share-based awards (including restricted shares, RSUs and share options) is 8,867,053 ordinary shares.

In September 2019, the Company’s Board of Directors approved the 2019 Share Incentive Plan (the 2019 Plan), which become effective upon the completion of the Company’s IPO on December 12, 2019. As of the date of December 31, 2024, under the 2019 Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to all share-based awards (including restricted shares, RSUs and share options) is 13,941,558 ordinary shares.

In December 2023, the Company’s Board of Directors approved the 2023 Share Incentive Plan (the 2023 Plan), which become effective on December 22, 2023. As of the date of December 31, 2024, under the 2023 Plan, the maximum aggregate number of ordinary shares that may be issued pursuant to all share-based awards (including restricted shares, RSUs and share options) is 11,905,990 ordinary shares.

Pursuant to 2015 Plan, 2019 Plan and 2023 Plan (collectively, the “Plans”), the members of the Board, consultant or employees are entitled to be granted share-based awards.

The Company granted a total of 876,380 and 6,114,000 RSUs and 394,820 share options to the Group’s employees under the 2019 Plan for the years ended December 31, 2022, 2023 and 2024 and a total of 2,305,100 RSUs and 5,124,500 share options to the Group’s employees under the 2023 Plan for the year ended December 31, 2024. All of the RSUs and shares options are subject to service conditions and vest over the periods ranging from half-year to four-year, starting from the vesting inception date.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

15. Share-based Compensation (Continued)

RSUs

The following table summarizes the Company’s RSUs activity under the Plans:

	Number of RSUs	Weighted average grant date fair value (US\$ per share)	Weighted average remaining contractual life (Years)
Unvested, December 31, 2021	4,119,500	9.4561	2.67
Granted	876,380	1.8800	
Vested	(2,034,880)	7.2254	
Forfeited	(283,000)	7.5431	
Unvested, December 31, 2022	2,678,000	8.8740	1.90
Granted	6,114,000	8.9809	
Vested	(2,255,250)	7.8054	
Forfeited	(9,000)	3.8500	
Unvested, December 31, 2023	6,527,750	9.3503	3.12
Granted	2,305,100	7.1700	
Vested	(2,460,000)	9.4054	
Forfeited	(4,000)	2.3500	
Unvested, December 31, 2024	6,368,850	8.5449	2.09
Expected to vest as of December 31, 2024	6,368,850		

The total share-based compensation expenses relating to RSUs for the years ended December 31, 2022, 2023 and 2024 were RMB96,898, RMB151,485 and RMB180,748 (US\$24,762), respectively. Total share-based compensation expense relating to RSUs capitalized to inventory was not material for any of the periods presented.

As of December 31, 2024, there was RMB342,099 (US\$46,867) of unrecognized share-based compensation expenses related to RSUs which is expected to be recognized over a weighted average vesting period of 2.09 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

15. Share-based Compensation (Continued)

Share options

The following table summarizes the Company’s share options activity under the 2015 Plan:

	Number of share options	Weighted average grant date fair value (US\$ per share)	Weighted average exercise price (US\$ per share)
Outstanding as of January 1 and December 31, 2024	53,737	2.2624	5.8853
Vested and expected to vest as of December 31, 2024	53,737	2.2624	5.8853
Exercisable as of December 31, 2024	53,737	2.2624	5.8853

The following table summarizes the Company’s share options activity under the 2023 Plan:

	Number of options	Weighted average grant date fair value (US\$ per share)	Weighted average exercise price (US\$ per share)
Unvested, December 31, 2023	—	—	—
Granted	5,519,320	5.1312	0.0001
Vested	(2,413,570)	5.1487	0.0001
Forfeited	(34,500)	4.7675	0.0001
Unvested, December 31, 2024	3,071,250	5.0436	0.0001
Expected to vest as of December 31, 2024	3,071,250		

The Group calculated the estimated fair value of the share options under the 2023 Plan on the grant date using the Black-Scholes valuation model. Assumptions used to determine the fair value of the share options granted under the 2023 Plan is summarized in the following table:

	For the year ended December 31, 2024	
	Batch 1	Batch 2
Term in years	9.9	9.3
Volatility	78.00%	74.30%
Discount rate	4.20%	3.70%
Fair value per ordinary share	US\$ per share 4.77	7.17

The total share-based compensation expenses relating to share options for the years ended December 31, 2022, 2023 and 2024 were nil, nil and RMB92,376 (US\$12,655), respectively. Total share-based compensation expense relating to share options capitalized to inventory was not material for any of the periods presented.

As of December 31, 2024, there was RMB111,407 (US\$15,263) of unrecognized share-based compensation expenses related to share options which is expected to be recognized over a weighted average vesting period of 3.07 years. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

Total share-based compensation expenses relating to RSUs and share options granted to employees recognized for the years ended December 31, 2022, 2023 and 2024 were as follows:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Sales and marketing expenses	22,125	18,958	65,597	8,987
General and administrative expenses	38,452	79,327	134,984	18,493
Research and development expenses	36,321	53,200	72,543	9,938
	96,898	151,485	273,124	37,418

In July 2024, the Company’s Board of Directors approved the share-based compensation modification by accelerating and adjusting the vesting of 562,500 share options which shall be vested in next three years according to original vesting schedule, resulting in share-based compensation expense of RMB19,028 (US\$2,607) for the year ended December 31, 2024.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

16. Income Taxes

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gain arising in Cayman Islands.

Austria

EHang GmbH is subject to Austria profits tax of 25% on its activities conducted in Austria.

France

EHang France is subject to France profits tax of 28% on its activities conducted in France.

Spain

EHang Spain is subject to Spain profits tax of 25% on its activities conducted in Spain.

Hong Kong

Ehfly and EHang HK are incorporated in Hong Kong and are subject to Hong Kong profits tax. Hong Kong profits tax for a corporation from the year of assessment 2018 and 2019 onwards is generally 8.25% on assessable profits up to HK\$2.0 million; and 16.5% on any part of assessable profits over HK\$2.0 million.

PRC

The Company's subsidiaries and the VIEs in the PRC are subject to the statutory rate of 25%, in accordance with the Enterprise Income Tax law (the “EIT Law”), which was effective since January 1, 2008 except for certain entities eligible for preferential tax rates.

In accordance with the PRC Income Tax Laws, an enterprise awarded with the High and New Technology Enterprise (“HNTE”) certificate may enjoy a reduced EIT rate of 15%. Qualified as an HNTE, EHang Intelligent was eligible for a 15% preferential rate from 2020 to 2025, EHang GZ was eligible for a 15% preferential rate from 2019 to 2024.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

16. Income Taxes (Continued)

PRC (Continued)

From January 1, 2010 to December 31, 2020, the newly established enterprises in Xinjiang Kashgar and Korgos, which are two special economic development zones belong to the Xinjiang Difficult Areas Key Encouraged Development Industry Enterprise Income Tax Preferential Catalogue (the “Catalogue”), shall be exempted from corporate income tax for five years from the tax year in which the first operating income is obtained. Kashi EHang Egret Media Technology Co., Ltd. (“EHang Egret KS”) established in 2017, engaged in industries that belong to Software Development and Business Service Industry in the catalogue. As the first operating income generated in 2018, EHang Egret KS may enjoy a reduced EIT rate of 0%.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in R&D activities are entitled to claim an additional tax deduction amounting to 50% of the qualified R&D expenses incurred in determining its tax assessable profits for that year. The additional tax deduction amount of the qualified R&D expenses has been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 (“Super Deduction”). According to Announcement of the Ministry of Finance and the State Taxation Administration [2021] No.13 (“Circular 13”), manufacturing enterprise with qualified R&D expenses could enjoy R&D Super Deduction, i.e. to claim additional 100% R&D expenses on top of those actually incurred. EHang Intelligent and Yunfu EHang were entitled to 100% super deduction while other entities within the group remain deducted additionally at 75%.

Dividends, interests, rent or royalties payable by the Company’s PRC subsidiaries, to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to 10% withholding tax, unless the respective non-PRC resident enterprise’s jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

16. Income Taxes (Continued)

Income tax expense comprises of:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Income tax expenses applicable to PRC operations				
Current income tax expenses	62	181	281	38
Subtotal income tax expenses applicable to PRC operations	<u>62</u>	<u>181</u>	<u>281</u>	<u>38</u>
Income tax expenses applicable to Non-PRC operations				
Current income tax expenses	17	25	105	15
Subtotal income tax expenses applicable to Non-PRC operations	<u>17</u>	<u>25</u>	<u>105</u>	<u>15</u>
Total income tax expenses	<u><u>79</u></u>	<u><u>206</u></u>	<u><u>386</u></u>	<u><u>53</u></u>

Reconciliations of the income tax expense computed by applying the PRC statutory income tax rate of 25% to the Group’s income tax expense of the periods presented are as follows:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Loss before income tax expense	(329,252)	(302,135)	(229,646)	(31,461)
PRC statutory tax rate ⁽¹⁾	25%	25%	25%	25%
Income tax benefits at PRC statutory tax rate of 25%	(82,313)	(75,534)	(57,412)	(7,865)
Effect of different tax rates in different jurisdictions	8,661	(429)	(633)	(87)
Non-deductible expenses ⁽²⁾	33,134	41,178	71,028	9,731
Additional deduction for qualified R&D expenses	(20,731)	(24,762)	(27,628)	(3,785)
Effect on adoption of preferential tax rate	3	(100)	(1,121)	(154)
Others	79	181	299	41
Change in valuation allowance	61,246	59,672	15,853	2,172
Income tax expenses	<u><u>79</u></u>	<u><u>206</u></u>	<u><u>386</u></u>	<u><u>53</u></u>
Effect of preferential tax rate inside the PRC on basic and dilutive loss per share	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(1) The PRC statutory tax rate is used for the reconciliation as the majority of the Group’s operations are based in the PRC.

(2) For the years ended December 31, 2022, 2023 and 2024, non-deductible expenses mainly represent the share-based compensation expenses.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

16. Income Taxes (Continued)

The significant components of the Group’s deferred tax assets(liabilities) were as follows:

	As of December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Non-current deferred tax assets				
Tax losses	203,259	256,410	272,940	37,393
Allowance for doubtful accounts/expected credit losses	29,288	32,963	25,088	3,437
Lease liabilities	18,858	20,226	34,561	4,735
Welfare payables	7,362	8,990	10,949	1,500
Inventory provision	2,472	2,304	2,270	311
Accrued expenses and other liabilities	1,573	1,621	4,378	600
Intangible assets	23	2	108	15
Unrealized loss on long-term investment	20	410	1,498	205
Unrealized profit arising from elimination of inter-company transactions	206	69	532	72
Total deferred tax assets	263,061	322,995	352,324	48,268
Less: valuation allowance	(244,691)	(304,363)	(320,216)	(43,869)
Deferred tax assets, net of valuation allowance	18,370	18,632	32,108	4,399
Non-current deferred tax liabilities				
Right-of-use assets	(18,370)	(18,632)	(32,108)	(4,399)
Unrealized gain on long-term investment	(292)	(292)	(292)	(40)
Total deferred tax liabilities	(18,662)	(18,924)	(32,400)	(4,439)
Deferred tax liabilities	(292)	(292)	(292)	(40)

Full valuation allowances have been provided where, based on all available evidence, management determined that deferred tax assets are not more likely than not to be realizable in future tax years. Movement of valuation allowance is as follow:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Valuation allowance				
Balance at beginning of the year	183,445	244,691	304,363	41,698
Additions	61,246	59,672	15,853	2,172
Balance at end of the year	244,691	304,363	320,216	43,869

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

16. Income Taxes (Continued)

As of December 31, 2022, 2023 and 2024, the Group had deductible tax losses of RMB786,444, RMB977,448 and RMB1,034,318 (US\$141,701) are derived from entities in the PRC. The tax losses in PRC can be carried forward for five years to offset future taxable profit, and the period was extended to ten years for entities qualified as HNTE in 2018 and thereafter. The tax losses of entities in the PRC began to expire from December 31, 2024 to 2033, if not utilized.

As of December 31, 2022, 2023 and 2024, the Group had deductible tax losses of RMB29,411, RMB31,890 and RMB32,893 (US\$4,506) derived from entities in Hong Kong that will not expire if not utilized.

Unrecognized Tax Benefit

As of December 31, 2023 and 2024, the Group had unrecognized tax benefit of RMB5,480 and RMB5,480 (US\$751), respectively. The unrecognized tax benefit was mainly related to the withholding tax accrued for the facilitating service in the acquisition of land use right from Guangzhou government by EHang HK on behalf of a third-party buyer in 2017 and under-reported statutory profits before tax. The Group does not anticipate that the amount of existing unrecognized tax benefits will significantly change within the next 12 months; however, an estimate of the range of the possible change cannot be made at this moment. As of December 31, 2023 and 2024, unrecognized tax benefits of RMB5,480 and RMB5,480 (US\$751), respectively, if ultimately recognized, will impact the effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefit was as follows:

	For the year ended December 31,			
	2022	2023	2024	
	RMB	RMB	RMB	US\$
Balance at the beginning of the year	(5,480)	(5,480)	(5,480)	(751)
Reductions for tax positions of prior years	—	—	—	—
Balance at the end of the year	(5,480)	(5,480)	(5,480)	(751)

The Group did not record any significant interest and penalties related to an uncertain tax position for the years ended December 31, 2022, 2023 and 2024. No accumulated interest expenses and penalties were recorded in unrecognized tax benefit as of December 31, 2022, 2023 and 2024, respectively.

The material jurisdictions in which the Group is subject to potential examination is China. In general, the PRC tax authorities have up to five years to review a company’s tax filings. As of December 31, 2024, the tax years ended December 31, 2018 through year ended as of the reporting dates for WFOE, the VIEs remain open to examination by the PRC tax authorities.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

17. Related Party Transactions

The principal related parties with which the Group had transactions during the years presented are as follows:

<u>Name of Entity or Individual</u>	<u>Relationship with the Company</u>
Mr. Huazhi Hu	Principal Shareholder of the Company, Chairman of the Board and Chief Executive Officer
Guangzhou Yitong Zhihang Technology Co., Ltd. (“Yitong Zhihang”)	A company over which the Group has significant influence
Xinjiang Xiyu Qingniao General Aviation Co., Ltd. (“Xiyu Qingniao”)	A company over which the Group has significant influence
Hefei Heyi Aviation Co., LTD (“Hefei Heyi”)	A company over which the Group has significant influence
Wanyi Tianxia (Zhuhai) Aviation Co., LTD (“Wanyi Tianxia”)	A company over which the Group has significant influence
Wuxi Liangyun low-altitude commercial operation management Co., LTD (“Wuxi Liangyun”)	A company over which the Group has significant influence
Guangxi Fengshan Fengyi Aviation Service Co., LTD (“Fengshan Fengyi”)	A company over which the Group has significant influence

(1) Transaction with related parties:

For the year ended December 31, 2024, the revenue of products from Hefei Heyi, Wanyi Tianxia and Fengshan Fengyi amounted to RMB133(US\$18), and the revenue of services from Yitong Zhihang, Hefei Heyi, Wanyi Tianxia and Wuxi Liangyun amounted to RMB1,225 (US\$168).

For the year ended December 31, 2023, the revenue of products from Yitong Zhihang and Xiyu Qingniao amounted to RMB3,009 and RMB8,850, respectively.

(2) Amount due to or from related parties:

As of December 31, 2024, RMB2,000 (US\$274) of contract liabilities derived from the sales of UAVs and amount due from related parties amounting to RMB505 (US\$69) represented the receivables for the sales of service and accessories.

As of December 31, 2023, RMB2,000 of contract liabilities derived from the sales of UAVs and amount due from related parties amounting to RMB1,700 represented the receivables for the sales of UAVs.

(3) Guarantee received for borrowings:

As of December 31, 2023 and 2024, respectively, RMB40,000 and RMB34,472 (US\$4,723) short-term bank loans, and RMB12,846 and RMB16,000 (US\$2,192) long-term bank loans were guaranteed by the Group’s founder and director, Mr. Huazhi Hu.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

18. Shareholders' Equity

Ordinary Shares

On October 26, 2022, the Company issued and transferred 876,380 Class A ordinary shares to The Bank of New York Mellon, its depository bank to be issued to employees upon the vesting of restricted share units under the 2015 Plans. For the year ended December 31, 2022, 2,595,750 Class A ordinary shares were issued pursuant to the vesting of restricted share units, among which 590,750 Class A ordinary shares were settled with shares held by the depository bank. Therefore, as of December 31, 2022, 871,000 Class A ordinary shares remain available for future issuance. These shares are legally issued but not outstanding for the purpose of accounting and thus are excluded from the basic net loss per share calculation.

For the year ended December 31, 2022, 1,110,000 Class B ordinary shares were converted to Class A ordinary shares.

In April 2023, the Company completed its issuance of 3,466,204 Class A ordinary shares to Qingdao investor in private placement for a total consideration of RMB66,486, net of issuance costs amounting to RMB2,374. In July 2023, the Company completed its issuance of 4,183,510 Class A ordinary shares to private placement led by South Korean strategic investor for a consideration of RMB163,563, net of issuance costs amounting to RMB1,000. Under the 2019 Plans approved by the Board, the Company issued 221,224 Class A ordinary shares at market price for cash consideration of RMB12,355 in 2023, resulting in the increase of additional paid-in capital.

On October 20, 2023, the Company issued and transferred 236,000 Class A ordinary shares to The Bank of New York Mellon, its depository bank to be issued to employees upon the vesting of restricted share units under the 2019 Plans. For the year ended December 31, 2023, 2,684,596 Class A ordinary shares were issued pursuant to the vesting of restricted share units, among which 1,085,820 Class A ordinary shares were settled with shares held by the depository bank. As of December 31, 2023, 461,516 Class A ordinary shares remain available for future issuance. These shares are legally issued but not outstanding for the purpose of accounting and thus are excluded from the basic net loss per share calculation.

For the year ended December 31, 2023, no Class B ordinary share was converted to Class A ordinary share.

On January 8, 2024 and May 8, 2024, the company issued and transferred 778,890 ordinary shares to The Bank of New York Mellon, its depository bank to be issued to employees upon the vesting of restricted share units under the 2019 Plans and 2023 Plans. For the year ended December 31, 2024, 4,398,390 Class A ordinary shares were issued pursuant to the vesting of restricted share units, among which 778,890 Class A ordinary shares were settled with shares held by the depository bank.

In April 2024, the Company entered into an At Market Issuance Sales Agreement with China Renaissance Securities (Hong Kong) Limited relating to the sale of ADSs for an aggregate offering price of up to US\$100 million from time to time through or to the sales agent, as agent or principal. In 2024, the company issued and transferred 10,800,000 ordinary shares to The Bank of New York Mellon for at-the-market offering. For the year ended December 31, 2024, the Company had raised gross proceeds of US\$76,243 (equivalent to RMB541,997) including issuance costs of US\$2,324 (equivalent to RMB16,518) through sales of 9,231,510 ordinary shares in the at-the-market offering.

In November 2024, the Company completed its issuance of 1,351,488 Class A ordinary shares to a strategic investor from the Middle East in private placement for a total gross consideration of US\$10,000 (equivalent to RMB71,786). In November 2024, the Company completed its issuance of 1,866,666 Class A ordinary shares to a Zhuhai investor in private placement for a total gross consideration of US\$12,600 (equivalent to RMB90,603). The aggregate amount of issuance costs for aforementioned private placements was RMB271 (US\$37). Under the 2019 Plans approved by the Board, the Company issued 110,180 Class A ordinary shares at market price for cash consideration of RMB5,999 (US\$822) in 2024, resulting in the increase of additional paid-in capital.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

18. Shareholders’ Equity (Continued)

Ordinary Shares (Continued)

In November 2024, the Board of Directors of the Company authorized a share repurchase program (“Share Repurchase Program”) under which the Company may repurchase up to US\$30 million worth of its Class A ordinary shares, including those in the form of ADSs over the following 12 months. The share repurchases may be made in accordance with applicable laws and regulations through open market transactions, privately negotiated transactions or other legally permissible means as determined by the management. For the year ended December 31, 2024, the Company repurchased 100,000 ADSs for RMB10,085(US\$1,382) on the open market, at a weighted average price of US\$13.99 per ADS. The Company accounts for the repurchased ordinary shares under the cost method and includes such treasury shares as a component of the shareholders’ equity.

As of December 31, 2024, 1,704,790 Class A ordinary shares remain available for future issuance. These shares are legally issued but not outstanding for the purpose of accounting and thus are excluded from the basic net loss per share calculation.

For the year ended December 31, 2024, no Class B ordinary shares were converted to Class A ordinary shares.

As of December 31, 2024, there were 104,828,035 Class A and 39,026,560 Class B ordinary shares outstanding.

Additional Paid-in Capital

As detailed above, issuance of Class A ordinary shares to the Qingdao investor and South Korean investors arising from private placements resulted in the increase of additional paid-in capital amounting to RMB66,484 and RMB163,560, respectively. The issuance of Class A ordinary shares at market price for cash resulted in the increase of additional paid-in capital amounting to RMB12,355, as of December 31, 2023.

The issuance of Class A ordinary shares to the strategic investor from the Middle East and Zhuhai investors arising from private placements resulted in the increase of additional paid-in capital amounting to RMB71,786 (US\$9,835) and RMB90,330 (US\$12,375), respectively. The issuance of Class A ordinary shares at market price for cash and the issuance of Class A ordinary shares in the at-the-market offering resulted in the increase of additional paid-in capital amounting to RMB5,999 (US\$822) and RMB525,471 (US\$71,989), as of December 31, 2024.

In January 2022, the Company withheld the individual income tax of RMB11,230 for employees’ vested share-based awards and made the cash payment to tax authorities. Concurrently, the Company withheld and received equivalent ADSs shares with fair value of RMB11,230 on that day from the employees for clearance of the individual income tax. The amount was debited to additional paid-in capital. In 2023 and 2024, the Company has sold ADSs shares for cash consideration of RMB7,795 and RMB4,532 (US\$621), respectively.

Accumulated Other Comprehensive (Loss) Income

	Foreign currency translation adjustment <u>RMB</u>
Balance as of December 31, 2021	(5,886)
Other comprehensive income	20,896
Balance as of December 31, 2022	15,010
Other comprehensive income	69
Balance as of December 31, 2023	15,079
Other comprehensive income	10,460
Balance as of December 31, 2024	25,539
Balance as of December 31, 2024 (US\$)	3,499

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

19. Acquisition of non-controlling interests

The Group, via Ehang GZ, held 60% interest in EHang Egret GD, which in turn held 60% interest in Xi’an EHang Egret Media Technology Co. Ltd. (“EHang Egret Xi’an”). In March 2023, to further develop the aerial media solutions business under the brand of “Egret” of Ehang Egret GD, the Group entered into an agreement to acquire 40% interest of EHang Egret GD from the non-controlling shareholder and dispose of 60% equity interests in EHang Egret Xi’an to the same non-controlling shareholder. Total consideration was RMB10,711, comprising of cash consideration of RMB4,000 and the Group’s share of net asset value in EHang Egret Xi’an amounting to RMB6,711, including cash of RMB2,920. The difference between the total consideration and non-controlling interest was charged to additional paid-in capital. Total cash outflow for the acquisition was RMB6,920.

Upon completion of the transactions, Ehang GZ holds 100% interest of EHang Egret GD and no longer had any interest in Ehang Egret Xi’an. Subsequently, Ehang Egret Xi’an eliminated “Ehang” and “Egret” in its name and did not have further business with the Group.

20. Loss Per Share

The following table sets forth the computation of basic and diluted net loss per share for the following periods:

	2022		For the year ended December 31,				2024	
	Class A	Class B	Class A	Class B	Class A		Class B	
	RMB	RMB	RMB	RMB	RMB	US\$	RMB	US\$
<i>Numerator:</i>								
Net loss attributable to EHang Holdings Limited	(214,390)	(113,831)	(204,787)	(96,913)	(163,038)	(22,336)	(66,738)	(9,143)
Net loss attributable to EHang Holdings Limited’s ordinary shareholders	(214,390)	(113,831)	(204,787)	(96,913)	(163,038)	(22,336)	(66,738)	(9,143)
<i>Denominator (in thousands of shares):</i>								
Weighted-average number of ordinary shares outstanding – basic and diluted (in thousands of shares)	74,917	39,778	82,467	39,027	95,340	95,340	39,027	39,027
Loss per share – basic and diluted	(2.86)	(2.86)	(2.48)	(2.48)	(1.71)	(0.23)	(1.71)	(0.23)

The Company had potential dilutive securities such as unvested RSUs and options granted. As the Group incurred losses for the years ended December 31, 2022, 2023 and 2024, these potential ordinary shares were anti-dilutive and excluded from the calculation of diluted net loss per share of the Company. The weighted-average numbers of non-vested RSUs and non-vested share options excluded from the calculation of diluted net loss per share of the Company were 3,782,562, 2,606,391 and 9,771,921 as of December 31, 2022, 2023 and 2024, respectively.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

21. Restricted Net Assets

The Company’s ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiary and the VIEs. Relevant PRC statutory laws and regulations permit payments of dividends by the Company’s PRC subsidiaries, the VIEs only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company’s subsidiaries and VIEs.

In accordance with the PRC Regulations on Enterprises with Foreign Investment and the articles of association of the Company’s PRC subsidiaries, a foreign-invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise’s PRC statutory accounts. A foreign-invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve fund until such reserve has reached 50% of its respective registered capital based on the enterprise’s PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign-invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. The WFOE was established as a foreign-invested enterprise and, therefore, is subject to the above mandated restrictions on distributable profits. For the years ended December 31, 2022, 2023 and 2024, WFOE did not have after-tax profit and therefore no statutory reserves have been allocated.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory surplus fund at least 10% of its annual after-tax profits until such statutory surplus fund has reached 50% of its registered capital based on the enterprise’s PRC statutory financial statements. A domestic enterprise is also required to provide discretionary surplus fund, at the discretion of the board of directors, from the net profits reported in the enterprise’s PRC statutory financial statements. The aforementioned reserve funds can only be used for specific purposes and are not distributable as cash dividends.

Foreign exchange and other regulations in the PRC may further restrict the Group’s VIEs from transferring funds to the Company in the form of dividends, loans and advances. Amounts restricted include paid-in capital and statutory reserves of the Group’s PRC subsidiaries and the equity of the VIEs, as determined pursuant to PRC generally accepted accounting principles. As of December 31, 2024, restricted net assets of the Company’s PRC subsidiaries and the VIEs was RMB136,029 (US\$18,636).

For the year ended December 31, 2024, the Company performed a test on the restricted net assets of its consolidated subsidiaries and VIEs in accordance with Securities and Exchange Commission Regulation S-X Rule 4-08 (e) (3), “General Notes to Financial Statements” and concluded that the restricted net assets do not exceed 25% of the consolidated net assets of the Company as of December 31, 2024 and the condensed financial information of the Company are not required to be presented.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

22. Fair Value Measurements

Assets measured or disclosed at fair value on a recurring basis as of December 31, 2023 and 2024 are summarized below:

	Fair Value Measurements as of December 31, 2023 using			
	Quoted Price in	Significant	Unobservable	Total
	Active Market	Other		
	for Identical	Observable	Inputs	fair value
Assets	Inputs	(Level 3)	RMB	
	(Level 1)	(Level 2)		
	RMB	RMB	RMB	RMB
<i>Fair value measurement</i>				
Derivative assets – foreign exchange forward contracts	—	1,743	—	1,743
Short-term investments	57,494	—	—	57,494
Debt security investment	—	—	2,000	2,000
Total asset measured at fair value	57,494	1,743	2,000	61,237

	Fair Value Measurements as of December 31, 2024 using			
	Quoted Price in	Significant	Unobservable	Total
	Active Market	Other		
	for Identical	Observable	Inputs	fair value
Assets	Inputs	(Level 3)	RMB	
	(Level 1)	(Level 2)		
	RMB	RMB	RMB	RMB
<i>Fair value measurement</i>				
Derivative assets – foreign exchange forward contracts	—	8	—	8
Short-term investments	119,928	393,755	—	513,683
Debt security investment	—	—	2,348	2,348
Total asset measured at fair value	119,928	393,763	2,348	516,039

The Group values its derivative instruments using the redemption forward rate by the issuing financial institutions that are not market observable inputs, and accordingly the Group classifies the valuation techniques that use these inputs as Level 2.

The fair value of short-term investments with observable inputs are determined based on unadjusted quoted prices in active market, while the fair value of short-term investments without fully observable quoted price are measured using the market approach, based on quoted prices for identical or similar instrument and other significant inputs derived from or corroborated by observable market data. The Group classifies the valuation techniques that use the unadjusted quoted prices as Level 1 of fair value measurements, and classifies the valuation techniques that use market approach as Level 2.

Debt security investment did not have readily determinable market values and are categorized as Level 3 in the fair value hierarchy. The Group used a combination of valuation methodologies, including the equity allocation model, market and income approaches based on the Group’s best estimate, which were determined by using information including but not limited to the pricing of recent rounds of financing of the investees.

There were no other assets or liabilities measured at a recurring or non-recurring basis as of December 31, 2023 and 2024. The Group measures certain financial and non-financial assets, including long-term investments and long-lived assets, at fair value on a nonrecurring basis when impairment charges are recognized.

EHANG HOLDINGS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),
except for number of shares and per share data)

23. Commitments and Contingencies

(a) Capital Commitments

Property, plant and equipment commitments

The Group’s capital commitments primarily relate to commitments in connection with the improvement of its office building. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB10,184 (US\$1,395) as of December 31, 2024. Almost all of the commitments relating to the improvement of the office building are to be fulfilled within one year.

Investment commitments

The Group’s investment commitments primarily relate to capital contribution obligations under certain arrangements. The total investment commitments contracted but not yet reflected in the consolidated financial statement amounted to RMB3,150 (US\$432) as of December 31, 2024.

(b) Contingencies

The Group is subject to legal and regulatory actions that arise from time to time. The assessment as to whether a loss is probable or reasonably possible, and as to whether such loss or a range of such loss is estimable, often involves significant judgment about future events, and the outcome of litigation is inherently uncertain. Save as disclosed below, the Group is currently not in any legal or administrative proceedings that may have a material adverse impact on the financial position, results of operations or cash flows of the Group.

(i) Shareholder securities litigation

On December 4, 2023, a securities class action complaint (captioned *Pujo v. EHang Holdings Limited*, No. 2:23-cv-10165 (C.D. Cal.)) was filed by purported holders of the Company’s ADSs in federal court. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and generally alleges that the Company and certain of its officers and directors made false and misleading statements regarding the Company’s business, operations, and prospects, among other allegations. The complaint is based in large part on a November 7, 2023, report issued by short seller Hindenburg Research. The complaint names as defendants certain of the Company’s officers and directors. The complaint seeks unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including reasonable attorneys’ fees. On February 2, 2024, purported stockholders of the Company moved for appointment as lead plaintiff. On August 12, 2024, the Court appointed a lead plaintiff and lead counsel. The lead plaintiff filed an amended complaint on October 14, 2024. The Company moved to dismiss the amended complaint on December 7, 2024, and the lead plaintiff filed an opposition to the motion on January 31, 2025. The Company filed a reply in support of its motion to dismiss on March 14, 2025. On March 26, 2025, the Court granted in part and denied in part our motion to dismiss. The Company intend to vigorously defend against these claims. However, given the uncertainty of litigation, the preliminary stage of the case, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from this action.

24. Subsequent Events

No subsequent event which had a material impact on the Group was identified through the date of issuance of the consolidated financial statements.

CERTAIN PERSONALLY IDENTIFIABLE INFORMATION HAS BEEN OMITTED PURSUANT TO ITEM 601(A)(6) OF REGULATION S-K, AND CERTAIN INFORMATION HAVE BEEN OMITTED PURSUANT TO ITEM 601(B)(10)(IV) OF REGULATION S-K ON THE BASIS THAT THE REGISTRANT CUSTOMARILY AND ACTUALLY TREATS THAT INFORMATION AS PRIVATE OR CONFIDENTIAL AND THE OMITTED INFORMATION IS NOT MATERIAL. INFORMATION THAT HAS BEEN OMITTED HAS BEEN NOTED IN THIS DOCUMENT WITH A PLACEHOLDER IDENTIFIED BY THE MARK “[*****].”

SHARE SUBSCRIPTION AGREEMENT

THIS SHARE SUBSCRIPTION AGREEMENT (this “*Agreement*”) is made as of November 14, 2024 by and between:

- (1) **EHANG HOLDINGS LIMITED** (亿航智能控股有限公司), an exempted company with limited liability incorporated in the Cayman Islands (the “*Company*”); and
- (2) **ZHUHAI ENPOWER ELECTRIC CO., LTD.** (珠海英搏尔电气股份有限公司), a limited company incorporated in the People’s Republic of China, with a unified social credit code of [*****] (the “*Purchaser*”).

The Company and the Purchaser are sometimes each referred to herein as a “*Party*” and collectively as the “*Parties*.” This Agreement, and any agreements and documents that may be required to implement the transactions contemplated by this Agreement, are referred to herein as the “*Transaction Documents*.”

Recitals

WHEREAS, upon the terms and subject to the conditions of this Agreement, the Company desires to issue and sell to the Purchaser, and the Purchaser desires to purchase from the Company, class A ordinary shares of the Company (the “*Ordinary Shares*”) in a private placement exempt from registration pursuant to Regulation S (“*Regulation S*”) under the U.S. Securities Act of 1933, as amended (the “*Securities Act*”). Such Ordinary Shares are convertible into an equivalent number of American depository shares (the “*ADSs*”) in the future, with the current conversion ratio being two Ordinary Shares for each ADS (the “*ADS to Ordinary Share Conversion Ratio*”), subject to adjustment in the event of any future share split, subdivision, combination, changes in the ADS to Ordinary Share Conversion Ratio, or other similar recapitalization. The Ordinary Shares and the ADSs are collectively referred to herein as the “*Securities*.”

Agreement

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises hereinafter set forth, the Parties hereto agree as follows:

1. Purchase and Sale

1.1 Issuance, Sale and Purchase of Ordinary Shares. Upon the terms and subject to the conditions of this Agreement, the Purchaser hereby agrees to purchase from the Company, and the Company hereby agrees to issue, sell and deliver to the Purchaser, a certain number of Ordinary Shares (as set forth on the Purchaser’s signature page to this Agreement, the “*Purchased Shares*”) for an aggregate purchase price (as set forth on the Purchaser’s signature page to this Agreement) at the Closing (as defined below). The number of the Purchased Shares equals the quotient of (i) the aggregate purchase price divided by (ii) the per share purchase price (as set forth on the Purchaser’s signature page to this Agreement).

1.2 Closing.

(a) Closing. Upon the terms and subject to the conditions of this Agreement, the closing of the sale and purchase of the Purchased Shares (the “*Closing*”) pursuant to Section 1.1 shall take place remotely via the electronic exchange of the closing documents and signatures as soon as possible within three (3) business days after the satisfaction of the closing conditions set forth in Section 1.3 hereof or on such date and time as the Company and the Purchaser may mutually agree upon. The date of the Closing is referred to herein as the “*Closing Date*.”

(b) Payment and Delivery. At the Closing, the Purchaser shall pay the aggregate purchase price by wire transfer, or by such other method mutually agreeable to the Company and the Purchaser, of immediately available funds in U.S. dollars to such bank account(s) as designated in writing by the Company, and the Company shall deliver a duly executed share certificate in electronic form (with the original form to be delivered promptly following the Closing), registered in the name of the Purchaser (or an affiliate approved and confirmed in writing by the Purchaser), together with a certified true copy of the register of members of the Company, evidencing the Purchased Shares being issued and sold to the Purchaser.

(c) Restrictive Legend. The share certificate representing the Purchased Shares shall be endorsed with the following legend:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR UNDER THE SECURITIES LAWS OF ANY STATE. THIS SECURITY MAY NOT BE TRANSFERRED, SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHIN THE UNITED STATES IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR TO ANY "U.S. PERSON," AS SUCH TERM IS DEFINED IN REGULATIONS UNDER THE ACT, DURING THE 40 DAYS FOLLOWING ACQUISITION OF THE SECURITY BY THE HOLDER THEREOF. ANY ATTEMPT TO TRANSFER, SELL, PLEDGE OR HYPOTHECATE THIS SECURITY IN VIOLATION OF THESE RESTRICTIONS SHALL BE VOID.

1.3 Closing Conditions.

(a) Conditions to the Purchaser's Obligations to Effect the Closing. The obligation of the Purchaser to purchase and pay for the Purchased Shares as contemplated by this Agreement is subject to the satisfaction, on or before the Closing Date, of the following conditions, any of which may only be waived in writing by the Purchaser in its sole discretion:

(i) All corporate and other actions required to be taken by the Company in connection with the issuance and sale of the Purchased Shares hereunder and any other transactions contemplated under the Transaction Documents shall have been completed.

(ii) The representations and warranties of the Company contained in Section 2.1 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect (as defined below), true and correct in all respects) on the date of this Agreement and on and as of its Closing Date; and the Company shall have performed and complied in all material respects with all, and not be in breach or default in any material respects under any, agreements, covenants, conditions and obligations contained in this Agreement or any other Transaction Document that are required to be performed or complied with on or before the Closing Date.

(iii) No governmental authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Purchaser; and no action, suit, proceeding or investigation shall have been instituted by a governmental authority of competent jurisdiction or threatened that seeks to restrain, enjoin, prevent, prohibit or otherwise make illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Purchaser.

(b) Conditions to the Company's Obligations to Effect the Closing. The obligation of the Company to issue, sell and deliver the Purchased Shares to the Purchaser as contemplated by this Agreement is subject to the satisfaction, on or before the Closing Date, of each of the following conditions, any of which may only be waived in writing by the Company in its sole discretion:

(i) All corporate and other actions required to be taken by the Purchaser in connection with the purchase of the Purchased Shares hereunder and any other transactions contemplated under the Transaction Documents shall have been completed.

(ii) The representations and warranties of the Purchaser contained in Section 2.2 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on the date of this Agreement and on and as of its Closing Date; and the Purchaser shall have performed and complied in all material respects with all, and not be in breach or default in any material respect under any, agreements, covenants, conditions and obligations contained in this Agreement or any other Transaction Document that are required to be performed or complied with by the Purchaser on or before the Closing Date.

(iii) No governmental authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Company; and no action, suit, proceeding or investigation shall have been instituted by a governmental authority of competent jurisdiction or threatened that seeks to restrain, enjoin, prevent, prohibit or otherwise make illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Company.

(iv) All necessary consents, approvals, registrations, qualifications, or filings with the relevant governmental authorities of the People's Republic of China shall have been obtained and/or completed in connection with the Purchaser's offshore direct investment ("**ODI**") in the Company contemplated by this Agreement, including the completion of the relevant ODI approval procedures with the competent commercial authorities and the competent development and reform authorities in relation to the aggregate purchase price, as well as the completion of the relevant foreign exchange procedures with the competent foreign exchange authorities (collectively, the "**ODI Approvals**").

2. Representations and Warranties

2.1 Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchaser, as of the date hereof and as of the Closing Date, except as disclosed in any SEC Documents (as defined below) that are publicly available within two (2) business days after the date hereof (excluding any forward-looking statements and any disclosure of non-specific risks faced by the Company to the extent they are cautionary, predictive or forward-looking in nature), as follows:

(a) Due Formation. The Company is a company duly incorporated as an exempted company with limited liability, validly existing and in good standing under the laws of the Cayman Islands. The Company has all requisite power and authority to carry on its business as it is currently being conducted.

(b) Authority. The Company has full power and authority to enter into, execute and deliver this Agreement and other Transaction Documents and each agreement, certificate, document and instrument to be executed and delivered by the Company pursuant to this Agreement and other Transaction Documents and to perform its obligations hereunder and thereunder. The execution and delivery by the Company of this Agreement and other Transaction Documents and the performance by the Company of its obligations hereunder and thereunder have been duly authorized by all requisite actions on its part.

(c) Valid Agreement. Each of the Transaction Documents (to which the Company is a party) has been duly executed and delivered by the Company and constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by the availability of specific performance, injunctive relief, or other equitable remedies.

(d) Capitalization.

(i) All outstanding share capital of the Company and all outstanding share capital of each of the Company's subsidiaries and consolidated affiliates (each, a "**Subsidiary**", and collectively, the "**Subsidiaries**") have been issued and granted in compliance with (x) all applicable Securities Laws (as defined below) and other applicable laws and (y) all requirements set forth in applicable plans or contracts, without violation of any preemptive rights, rights of first refusal or other similar rights. "**Securities Laws**" means the Securities Act, the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the listing rules of, or any listing agreement with, the Nasdaq Stock Market, and any other applicable law regulating securities or takeover matters.

(ii) The rights of the Ordinary Shares to be issued to the Purchaser as the Purchased Shares shall be as stated in the Fifth Amended and Restated Memorandum and Articles of Association of the Company, as amended and restated from time to time.

(e) Due Issuance of the Purchased Shares. The Purchased Shares have been duly authorized and, when issued and delivered to and paid for by the Purchaser pursuant to this Agreement, will be validly issued, fully paid and non-assessable and free and clear of any pledge, mortgage, security interest, encumbrance, lien, charge, assessment, right of first refusal, right of pre-emption, third party right or interest, claim or restriction of any kind or nature, except for restrictions arising under the Securities Laws or created by virtue of this Agreement or other Transaction Documents, and upon delivery and entry into the register of members of the Company will transfer to the Purchaser good and valid title to the Purchased Shares.

(f) Non-contravention. Neither the execution and the delivery of this Agreement or any other Transaction Document, nor the consummation of the transactions contemplated hereby and thereby, will (i) violate any provision of the organizational documents of the Company or its Subsidiaries or violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental entity or court to which the Company or its Subsidiaries is subject, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of or creation of an encumbrance under, or create in any party the right to accelerate, terminate, modify, or cancel, any agreement, contract, lease, license, instrument, or other arrangement to which the Company or its Subsidiaries is a party or by which the Company or its Subsidiaries is bound or to which any of the Company's or its Subsidiaries' assets are subject. There is no action, suit or proceeding, pending or threatened against the Company or its Subsidiaries that questions the validity of this Agreement or any other Transaction Document or the right of the Company to enter into this Agreement or any other Transaction Document or to consummate the transactions contemplated hereby and thereby.

(g) Consents and Approvals. Neither the execution and delivery by the Company of this Agreement or any other Transaction Document, nor the consummation by the Company of any of the transactions contemplated hereby and thereby, nor the performance by the Company of this Agreement or any other Transaction Document in accordance with its terms requires the consent, approval, order or authorization of, or registration with, or the giving notice to, any governmental or public body or authority or any third party, except such as have been or will have been obtained, made or given on or prior to the Closing Date.

(h) Compliance with Laws; Permits. The business of the Company or its Subsidiaries is not being conducted, and has not been conducted at any time, in violation of any law or government order applicable to the Company except for violations that do not and would not have a Material Adverse Effect. As used herein, "**Material Adverse Effect**" shall mean any event, fact, circumstance or occurrence that, individually or in the aggregate with any other events, facts, circumstances or occurrences, results in or would reasonably be expected to result in a material adverse change in or a material adverse effect on any of (i) the financial condition, assets, liabilities, results of operations, business, or operations of the Company and its Subsidiaries, taken as a whole, except to the extent that any such Material Adverse Effect results from (x) the public disclosure of the transactions contemplated under the Transaction Documents in accordance with their terms, (y) changes in generally accepted accounting principles that are generally applicable to comparable companies, or (z) changes in general economic and market conditions; or (ii) the ability of the Company to consummate the transactions contemplated by the Transaction Documents and to timely perform its material obligations under the Transaction Documents. Except in each case as do not and would not have a Material Adverse Effect, (A) the Company and each of its Subsidiaries have, and have been in compliance with, all permits, licenses, authorizations, consents, orders and approvals (collectively, the "**Permits**") that are required in order to carry on their business as presently conducted, (B) neither the Company nor any of its Subsidiaries has received any written notice of any violation of or failure to comply with any Permit or any actual or possible suspension or cancellation of any Permit, and (C) each such Permit has been validly issued or obtained and is in full force and effect.

(i) SEC Documents. Since April 15, 2024, the Company has timely filed or furnished, as applicable, all reports, schedules, forms, statements and other documents required to be filed or furnished by it with the U.S. Securities and Exchange Commission (“**SEC**”) pursuant to the Securities Act or the Exchange Act and the rules and regulations promulgated thereunder (all of the foregoing documents filed with or furnished to the SEC and all exhibits included therein and financial statements, notes and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the “**SEC Documents**”). As of their respective filing or furnishing dates, the SEC Documents complied in all material respects with the requirements of the Sarbanes-Oxley Act of 2002, the Securities Act or the Exchange Act, as the case may be, and the rules and regulations promulgated thereunder, as applicable to the respective SEC Documents, and, none of the SEC Documents, at the time they were filed or furnished, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. There are no contracts, agreements, arrangements, transactions or documents which are required to be described or disclosed in the SEC Documents or to be filed as exhibits to the SEC Documents which have not been so described, disclosed or filed. The Company is in compliance with the applicable listing and corporate governance rules and regulations of the Nasdaq Stock Market. The Company is in compliance with the Sarbanes-Oxley Act of 2002 in all material respects.

(j) Financial Statements.

(i) The financial statements (including any related notes) contained in the SEC Documents (collectively, the “**Financial Statements**”): (A) were prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods covered thereby (except (a) as may be otherwise indicated in such financial statements or the notes thereto, or (b) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed to summary statements); and (B) fairly present in all material respects the consolidated financial position of the Company and the Subsidiaries as of the respective dates thereof and the consolidated results of operations and cash flows of the Company and the Subsidiaries for the periods covered thereby, in each case except as disclosed therein or in the SEC Documents and as permitted under the Exchange Act.

(ii) The Company has established and maintains a system of internal control over financial reporting (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) sufficient to provide reasonable assurance regarding the reliability of financial reporting, including policies and procedures that (A) mandate the maintenance of records that in reasonable detail accurately and fairly reflect the material transactions and dispositions of the assets of the Company, (B) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with appropriate authorizations of management and the board of directors of the Company, and (C) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Company. There are no material weaknesses in the Company’s internal controls. The Company’s auditors and the audit committee of the board of directors of the Company have not been advised of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal controls over financial reporting. Since December 31, 2021, there has been no change in the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

(k) Regulation S. No directed selling efforts (as defined in Rule 902 of Regulation S under the Securities Act) have been made by any of the Company, any of its affiliates or any person acting on its behalf with respect to any Purchased Shares that are not registered under the Securities Act; and none of such persons has taken any actions that would result in the sale of the Purchased Shares to the Purchaser under this Agreement requiring registration under the Securities Act; and the Company is a “foreign issuer” (as defined in Regulation S).

2.2 Representations and Warranties of the Purchaser. The Purchaser hereby represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

- (a) Due Formation. The Purchaser is duly formed, validly existing and in good standing in the jurisdiction of its organization. The Purchaser has all requisite power and authority to carry on its business as it is currently being conducted.
- (b) Authority. The Purchaser has full power and authority to enter into, execute and deliver this Agreement and other Transaction Documents and each agreement, certificate, document and instrument to be executed and delivered by the Purchaser pursuant to this Agreement and other Transaction Documents and to perform its obligations hereunder and thereunder. The execution and delivery by the Purchaser of this Agreement and other Transaction Documents and the performance by the Purchaser of its obligations hereunder and thereunder have been duly authorized by all requisite actions on its part.
- (c) Valid Agreement. Each of the Transaction Documents has been duly executed and delivered by the Purchaser and constitutes the legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by the availability of specific performance, injunctive relief, or other equitable remedies.
- (d) Non-contravention. Neither the execution and the delivery of this Agreement or any other Transaction Document, nor the consummation of the transactions contemplated hereby and thereby, will (i) violate any provision of the organizational documents of the Purchaser or violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental entity or court to which the Purchaser is subject, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of or creation of an encumbrance under, or create in any party the right to accelerate, terminate, modify, or cancel, any agreement, contract, lease, license, instrument, or other arrangement to which the Purchaser is a party or by which the Purchaser is bound or to which any of the Purchaser's assets are subject. There is no action, suit or proceeding, pending or, threatened against the Purchaser that questions the validity of this Agreement or any other Transaction Document or the right of the Purchaser to enter into this Agreement or any other Transaction Document or to consummate the transactions contemplated hereby and thereby.
- (e) Consents and Approvals. Neither the execution and delivery by the Purchaser of this Agreement or any other Transaction Document, nor the consummation by the Purchaser of any of the transactions contemplated hereby or thereby, nor the performance by the Purchaser of this Agreement or any other Transaction Document in accordance with its terms requires the consent, approval, order or authorization of, or registration with, or the giving notice to, any governmental or public body or authority or any third party, except such as have been or will have been obtained, made or given on or prior to the Closing Date.
- (f) Status and Investment Intent.
 - (i) Experience. The Purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Purchased Shares. The Purchaser is capable of bearing the economic risks of such investment, including a complete loss of its investment.
 - (ii) Purchase Entirely for Own Account. The Purchaser is acquiring the Purchased Shares for its own account for investment purposes only and not with the view to, or with any intention of, resale, distribution or other disposition thereof. The Purchaser does not have any direct or indirect arrangement or understanding with any other person to distribute, or regarding the distribution of, the Purchased Shares in violation of the Securities Act or any other applicable state securities law.
 - (iii) Public Offering. The Purchaser (x) was not identified or contacted through the marketing of the Purchased Shares and (y) did not contact the Company as a result of any general solicitation, offering or directed selling efforts.

(iv) Restricted Securities. The Purchaser acknowledges that, by virtue of a specific exemption from registration under the Securities Act based, among other things, on the bona fide nature of the investment intent and the accuracy of the Purchaser's representations expressed herein, the Purchased Shares are "restricted securities" that have not been registered under the Securities Act or any applicable state securities law. The Purchaser further acknowledges that, absent an effective registration under the Securities Act, the Purchased Shares may only be offered, sold or otherwise transferred (x) to the Company, (y) outside the United States in accordance with Rule 904 of Regulation S, or (z) pursuant to an exemption from registration under the Securities Act.

(v) Information. The Purchaser has been furnished access to all materials and information the Purchaser has requested relating to the Company and its Subsidiaries and other due diligence documents in order to evaluate the transactions contemplated by this Agreement. The Purchaser is relying solely on its own counsel and other advisors as to the financial, tax, legal and related matters concerning an investment in the Purchased Shares.

(vi) Not a U.S. Person. The Purchaser is not a "U.S. person" as defined in Rule 902 of Regulation S.

(vii) Offshore Transaction. The Purchaser has been advised and acknowledges that in issuing the Purchased Shares to the Purchaser pursuant hereto, the Company is relying upon the exemption from registration provided by Regulation S. The Purchaser is acquiring the Purchased Shares in an offshore transaction in reliance upon the exemption from registration provided by Regulation S.

(viii) FINRA. The Purchaser does not, directly or indirectly, own more than five percent of the outstanding common stock (or other voting securities) of any member of the Financial Industry Regulatory Authority, Inc. ("FINRA") or a holding company for a FINRA member, and is not otherwise a "restricted person" for the purposes of FINRA Rule 5130.

3. Covenants

3.1 Lock-Up. The Purchaser agrees that for a period of one hundred and eighty (180) days from the Closing Date (the "Lock-up Period"), it shall not (i) offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right, or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any of the Purchased Shares, or (ii) enter into any swap or other arrangement that has any economic consequence of transferring ownership of the Purchased Shares, in whole or in part, to another person. The Purchaser further understands that the covenants set out in this Section 3.1 shall be binding on the Purchaser's legal representatives, successors and assigns.

3.2 Distribution Compliance Period. The Purchaser agrees not to resell, pledge or transfer any of the Purchased Shares within the United States or to any U.S. person, as each of those terms is defined in Regulation S, during the forty (40) days following the Closing Date.

3.3 CSRC Filings Assistance. The Purchaser understands that the Company is required to make filings with China Securities Regulatory Commission ("CSRC") in respect of the transaction under this Agreement within three (3) days following the Closing. The Purchaser agrees to provide the Company with the information or assistance necessary to complete such CSRC filings.

3.4 Further Assurances.

(a) From the date of this Agreement until the Closing Date, the Company and the Purchaser shall use their reasonable best efforts to fulfill or obtain the fulfillment of the conditions precedent to the consummation of the transactions contemplated hereby (including the Purchaser's best efforts to obtain the ODI Approvals for the payment of the aggregate purchase price to the Company as agreed in this Agreement).

(b) From the date of this Agreement until the Closing Date, the Parties agree to use their reasonable best efforts to take or cause to be taken all actions required to execute further instruments and to assist and cooperate with the other parties hereto in doing all such things as may be necessary, appropriate or desirable under applicable law or in a manner that may be practicable to effectuate the transactions contemplated by this Agreement and other Transaction Documents; *provided that*, except as expressly provided herein, neither Party shall be obligated to waive any of its rights hereunder.

4.8 Severability. If any provisions of this Agreement shall be adjudicated to be illegal, invalid or unenforceable in any action or proceeding whether in its entirety or in any portion, then such provision shall be deemed amended, if possible, or deleted, as the case may be, from this Agreement in order to render the remainder of this Agreement and any provision hereof both valid and enforceable, and all other provisions hereof shall be given effect separately therefrom and shall not be affected thereby.

4.9 Fees and Expenses. Except as otherwise provided in this Agreement, each of the Parties will bear their respective expenses incurred in connection with the negotiation, preparation and execution of this Agreement and the transactions contemplated hereby, including fees and expenses of attorneys, accountants, consultants and financial advisors.

4.10 Confidentiality. Each Party shall keep in confidence, and shall not use (except for the purposes of the transactions contemplated hereby) or disclose, any non-public information disclosed to it or its affiliates, representatives or agents in connection with this Agreement and other Transaction Documents or the transactions contemplated hereby and thereby, except as required by applicable law and stock exchange rules. Each Party shall ensure that its affiliates, representatives and agents keep in confidence, and do not use (except for the purposes of the transactions contemplated hereby) or disclose, any such non-public information, except as required by applicable law and stock exchange rules. The provisions of this Section 4.10 shall survive the termination of this Agreement under Section 4.12.

4.11 Specific Performance. The Parties agree that irreparable damage would occur in the event any provision of this Agreement were not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

4.12 Termination. In the event that the Closing shall not have occurred within three (3) months of the execution of this Agreement, or such other longer time period as the Company may reasonably agree, either the Company or the Purchaser may terminate this Agreement by written notice to the other Party.

4.13 Headings. The headings of the various articles and sections of this Agreement are inserted merely for the purpose of convenience and do not expressly or by implication limit, define or extend the specific terms of the section so designated.

4.14 Execution in Counterparts. For the convenience of the Parties and to facilitate execution, this Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument. Facsimile and email copies of the signature pages shall be deemed to be originals for purposes of this Agreement.

4.15 Reservation of Rights. A Party's failure to exercise or delay in exercising any of its rights, powers and remedies under this Agreement or at law will not constitute a waiver of such rights, nor will it be construed as an admission of breach by the rights holder; and a partial exercise of the foregoing will not constitute a waiver of the remainder of such right. Any rights, powers and remedies conferred on the Parties by any provision of this Agreement are not exclusive of any other rights, powers or remedies to which a Party may be entitled under applicable law or other provisions hereof; and the exercise by a Party of any one right, power or remedy does not preclude the exercise by such Party of any other rights, powers or remedies to which it is entitled.

4.16 No Third Party Beneficiaries. No person who is not a party to this Agreement shall be permitted to enforce any term of this Agreement or enjoy its benefits pursuant to the provisions of the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong). Notwithstanding any provision of this Agreement, a Party's right to rescind or consent to any amendment or waiver under this Agreement shall not require the consent of any third party.

IN WITNESS WHEREOF, the Parties have executed this Share Subscription Agreement as of the date first above written.

ZHUHAI ENPOWER ELECTRIC CO., LTD. (SEAL)
(珠海英搏尔电气股份有限公司)

By: /s/ Xiaotian Liang
Name: Xiaotian Liang
Title: Financial Controller
Aggregate Purchase Price: US\$[*****]
Purchased Shares: [*****] Ordinary Shares
Per Share Purchase Price: US\$[*****]

[Signature Page to Share Subscription Agreement – EHang Holdings Limited]

SUBSCRIPTION AGREEMENT

This Subscription Agreement (this “**Agreement**”) is made as of November 7, 2024 by and among:

- (1) EHang Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands (the “**Company**”), and
- (2) [____], a [____] incorporated in [____] (the “**Purchaser**”).

The Company and the Purchaser are sometimes each referred to herein as a “**Party**” and collectively as the “**Parties**.” This Agreement, and any agreements and documents that may be required to implement the transactions contemplated by this Agreement, are referred to herein as the “**Transaction Documents**.”

W I T N E S S E T H:

WHEREAS, upon the terms and subject to the conditions of this Agreement, the Company desires to issue and sell to the Purchaser, and the Purchaser wish to purchase from the Company, class A ordinary shares, par value US\$0.0001 per share, of the Company (“**Ordinary Shares**”) in a private placement exempt from registration pursuant to Regulation S (“**Regulation S**”) under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”).

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises hereinafter set forth, the Parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE

Section 1.1 Issuance, Sale and Purchase of Ordinary Shares.

(a) Upon the terms and subject to the conditions of this Agreement, the Company shall issue, sell and deliver to the Purchaser certain number of Ordinary Shares (the “**Purchased Shares**”) for an aggregate purchase price of US\$ _____ million (the “**Aggregate Purchase Price**”), at the Closing (as defined below), free and clear of all liens or encumbrances (except for restrictions arising under the Securities Act or created by virtue of this Agreement). The number of the Purchased Shares equals the quotient of (i) the Aggregate Purchase Price divided by (ii) the Per Share Purchase Price (as defined below).

(b) For the purpose of this Agreement, the “Per Share Purchase Price” is the product of (i) the closing sale price of the American depository shares, each representing two Ordinary Shares of the Company, on the trading day immediately preceding the date of this Agreement, as reported by Nasdaq, divided by (ii) two (2), and then multiplied by (iii) _____ percent (%).

Section 1.2 Closing.

(a) Closing. Subject to Section 1.3, the closing of the sale and purchase of the Purchased Shares (the “**Closing**”) pursuant to Section 1.1 shall take place remotely via the electronic exchange of the closing documents and signatures as soon as possible after the date hereof and on such date and time as the Company and the Purchaser may mutually agree upon. The date of the Closing is referred to herein as the “**Closing Date**.”

(b) Payment and Delivery. At the Closing, the Purchaser shall pay the Aggregate Purchase Price by wire transfer, or by such other method mutually agreeable to the Company and the Purchaser, of immediately available funds in U.S. dollars to such bank account(s) designated in writing by the Company, and the Company shall deliver a duly executed share certificate in electronic form (with the original form to be delivered promptly following the Closing), registered in the name of the Purchaser, together with a certified true copy of the register of members of the Company, evidencing the Purchased Shares being issued and sold to the Purchaser.

(c) Restrictive Legend. The share certificate representing Purchased Shares shall be endorsed with the following legend:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR UNDER THE SECURITIES LAWS OF ANY STATE. THIS SECURITY MAY NOT BE TRANSFERRED, SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED WITHIN THE UNITED STATES IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR TO ANY "U.S. PERSON," AS SUCH TERM IS DEFINED IN REGULATION S UNDER THE ACT, DURING THE 40 DAYS FOLLOWING ACQUISITION OF THE SECURITY BY THE HOLDER THEREOF. ANY ATTEMPT TO TRANSFER, SELL, PLEDGE OR HYPOTHECATE THIS SECURITY IN VIOLATION OF THESE RESTRICTIONS SHALL BE VOID.

Section 1.3 Closing Conditions.

(a) Conditions to the Purchaser's Obligations to Effect the Closing. The obligation of the Purchaser to purchase and pay for the Purchased Shares as contemplated by this Agreement is subject to the satisfaction, on or before the Closing Date, of the following conditions, any of which may only be waived in writing by the Purchaser in its sole discretion:

(i) All corporate and other actions required to be taken by the Company in connection with the issuance and sale of the Purchased Shares hereunder and any other transactions contemplated under the Transaction Documents shall have been completed.

(ii) The representations and warranties of the Company contained in Section 2.1 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on the date of this Agreement and on and as of its Closing Date; and the Company shall have performed and complied in all material respects with all, and not be in breach or default in any material respects under any, agreements, covenants, conditions and obligations contained in this Agreement or any other Transaction Document that are required to be performed or complied with on or before the Closing Date.

(iii) No governmental authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Company; and no action, suit, proceeding or investigation shall have been instituted by a governmental authority of competent jurisdiction or threatened that seeks to restrain, enjoin, prevent, prohibit or otherwise make illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Company.

(b) Conditions to the Company's Obligations to Effect the Closing. The obligation of the Company to issue, sell and deliver the Purchased Shares to the Purchaser as contemplated by this Agreement is subject to the satisfaction, on or before the Closing Date, of each of the following conditions, any of which may only be waived in writing by the Company in its sole discretion:

(i) All corporate and other actions required to be taken by the Purchaser in connection with the purchase of the Purchased Shares hereunder and any other transactions contemplated under the Transaction Documents shall have been completed.

(ii) The representations and warranties of the Purchaser contained in Section 2.2 of this Agreement shall have been true and correct in all material respects (or, if qualified by materiality or Material Adverse Effect, true and correct in all respects) on the date of this Agreement and the Closing Date; and the Purchaser shall have performed and complied in all material respects with all, and not be in breach or default in any material respect under any, agreements, covenants, conditions and obligations contained in this Agreement or any other Transaction Document that are required to be performed or complied with by the Purchaser on or before the Closing Date.

(iii) No governmental authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins, prevents, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Company; and no action, suit, proceeding or investigation shall have been instituted by a governmental authority of competent jurisdiction or threatened that seeks to restrain, enjoin, prevent, prohibit or otherwise make illegal the consummation of the transactions contemplated by this Agreement or any other Transaction Document, or imposes any damages or penalties in connection with the transactions contemplated by this Agreement or any other Transaction Document that are substantial in relation to the Company.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchaser, as of the date hereof and as of the Closing Date, except as disclosed in any SEC Documents (as defined below) that are publicly available prior to the date hereof (excluding any forward-looking statements and any disclosure of non-specific risks faced by the Company to the extent they are cautionary, predictive or forward-looking in nature), as follows:

(a) Due Formation. The Company is a company duly incorporated as an exempted company with limited liability, validly existing and in good standing under the laws of the Cayman Islands. The Company has all requisite power and authority to carry on its business as it is currently being conducted.

(b) Authority. The Company has full power and authority to enter into, execute and deliver this Agreement and other Transaction Documents and each agreement, certificate, document and instrument to be executed and delivered by the Company pursuant to this Agreement and other Transaction Documents and to perform its obligations hereunder and thereunder. The execution and delivery by the Company of this Agreement and other Transaction Documents and the performance by the Company of its obligations hereunder and thereunder have been duly authorized by all requisite actions on its part.

(c) Valid Agreement. Each of the Transaction Documents has been duly executed and delivered by the Company and constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by the availability of specific performance, injunctive relief, or other equitable remedies.

(d) Capitalization.

(i) All outstanding share capital of the Company and all outstanding share capital of each of the Company's subsidiaries and consolidated affiliates (each a "**Subsidiary**" and collectively "**Subsidiaries**") have been issued and granted in compliance with (x) all applicable Securities Laws and other applicable laws and (y) all requirements set forth in applicable plans or contracts, without violation of any preemptive rights, rights of first refusal or other similar rights. "**Securities Laws**" means the Securities Act, the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), the listing rules of, or any listing agreement with, the Nasdaq Stock Market and any other applicable law regulating securities or takeover matters.

(ii) The rights of the Ordinary Shares to be issued to the Purchaser as the Purchased Shares shall be as stated in the Memorandum and Articles of Association of the Company in effect as of the Closing Date.

(e) Due Issuance of the Purchased Shares. The Purchased Shares have been duly authorized and, when issued and delivered to and paid for by the Purchaser pursuant to this Agreement, will be validly issued, fully paid and non-assessable and free and clear of any pledge, mortgage, security interest, encumbrance, lien, charge, assessment, right of first refusal, right of pre-emption, third party right or interest, claim or restriction of any kind or nature, except for restrictions arising under the Securities Act or created by virtue of this Agreement, and upon delivery and entry into the register of members of the Company will transfer to the Purchaser good and valid title to the Purchased Shares.

(f) Non-contravention. Neither the execution and the delivery of this Agreement or any other Transaction Document, nor the consummation of the transactions contemplated hereby and thereby, will (i) violate any provision of the organizational documents of the Company or its Subsidiaries or violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental entity or court to which the Company or its Subsidiaries is subject, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of or creation of an encumbrance under, or create in any party the right to accelerate, terminate, modify, or cancel, any agreement, contract, lease, license, instrument, or other arrangement to which the Company or its Subsidiaries is a party or by which the Company or its Subsidiaries is bound or to which any of the Company's or its Subsidiaries' assets are subject. There is no action, suit or proceeding, pending or threatened against the Company or its Subsidiaries that questions the validity of this Agreement or any other Transaction Document or the right of the Company to enter into this Agreement or any other Transaction Document or to consummate the transactions contemplated hereby.

(g) Consents and Approvals. Neither the execution and delivery by the Company of this Agreement or any other Transaction Document, nor the consummation by the Company of any of the transactions contemplated hereby and thereby, nor the performance by the Company of this Agreement or any other Transaction Document in accordance with its terms requires the consent, approval, order or authorization of, or registration with, or the giving notice to, any governmental or public body or authority or any third party, except such as have been or will have been obtained, made or given on or prior to the Closing Date.

(h) Compliance with Laws; Permits. The business of the Company or its Subsidiaries is not being conducted, and has not been conducted at any time, in violation of any law or government order applicable to the Company except for violations that do not and would not have a Material Adverse Effect. As used herein, "**Material Adverse Effect**" shall mean any event, fact, circumstance or occurrence that, individually or in the aggregate with any other events, facts, circumstances or occurrences, results in or would reasonably be expected to result in a material adverse change in or a material adverse effect on any of (i) the financial condition, assets, liabilities, results of operations, business, or operations of the Company and its Subsidiaries, taken as a whole, except to the extent that any such Material Adverse Effect results from (x) the public disclosure of the transactions contemplated under the Transaction Documents in accordance with their terms, (y) changes in generally accepted accounting principles that are generally applicable to comparable companies, or (z) changes in general economic and market conditions; or (ii) the ability of the Company to consummate the transactions contemplated by the Transaction Documents and to timely perform its material obligations under the Transaction Documents. Except in each case as do not and would not have a Material Adverse Effect, (A) the Company and each of its Subsidiaries have, and have been in compliance with, all permits, licenses, authorizations, consents, orders and approvals (collectively, "**Permits**") that are required in order to carry on their business as presently conducted, (B) neither the Company nor any of its Subsidiaries has received any written notice of any violation of or failure to comply with any Permit or any actual or possible suspension or cancellation of any Permit and (C) each such Permit has been validly issued or obtained and is in full force and effect.

(i) SEC Documents. Since April 15, 2024, the Company has timely filed or furnished, as applicable, all reports, schedules, forms, statements and other documents required to be filed or furnished by it with the U.S. Securities and Exchange Commission ("**SEC**") pursuant to the Securities Act or the Exchange Act and the rules and regulations promulgated thereunder (all of the foregoing documents filed with or furnished to the SEC and all exhibits included therein and financial statements, notes and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "**SEC Documents**"). As of their respective filing or furnishing dates, the SEC Documents complied in all material respects with the requirements of the Sarbanes-Oxley Act of 2002, the Securities Act or the Exchange Act, as the case may be, and the rules and regulations promulgated thereunder, as applicable to the respective SEC Documents, and, none of the SEC Documents, at the time they were filed or furnished, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. There are no contracts, agreements, arrangements, transactions or documents which are required to be described or disclosed in the SEC Documents or to be filed as exhibits to the SEC Documents which have not been so described, disclosed or filed. The Company is in compliance with the applicable listing and corporate governance rules and regulations of the Nasdaq Stock Market. The Company is in compliance with the Sarbanes-Oxley Act of 2002 in all material respects.

(j) Financial Statements.

(i) The financial statements (including any related notes) contained in the SEC Documents (collectively, the "**Financial Statements**"): (A) were prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods covered thereby (except (a) as may be otherwise indicated in such financial statements or the notes thereto, or (b) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed to summary statements) and (B) fairly present in all material respects the consolidated financial position of the Company and the Subsidiaries as of the respective dates thereof and the consolidated results of operations and cash flows of the Company and the Subsidiaries for the periods covered thereby, in each case except as disclosed therein or in the SEC Documents and as permitted under the Exchange Act.

(ii) The Company has established and maintains a system of internal control over financial reporting (as defined in Rule 13a-15 or 15d-15, as applicable, under the Exchange Act) sufficient to provide reasonable assurance regarding the reliability of financial reporting, including policies and procedures that (A) mandate the maintenance of records that in reasonable detail accurately and fairly reflect the material transactions and dispositions of the assets of the Company, (B) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with appropriate authorizations of management and the board of directors of the Company and (C) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Company. There are no material weaknesses in the Company's internal controls. The Company's auditors and the audit committee of the board of directors of the Company have not been advised of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting. Since December 31, 2021, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(k) Regulation S. No directed selling efforts (as defined in Rule 902 of Regulation S under the Securities Act) have been made by any of the Company, any of its affiliates or any person acting on its behalf with respect to any Purchased Shares that are not registered under the Securities Act; and none of such persons has taken any actions that would result in the sale of the Purchased Shares to the Purchaser under this Agreement requiring registration under the Securities Act; and the Company is a "foreign issuer" (as defined in Regulation S).

Section 2.2 Representations and Warranties of the Purchaser. The Purchaser hereby, severally and not jointly with any other Purchaser represents and warrants to the Company as of the date hereof and as of the Closing Date, as follows:

(a) Due formation. The Purchaser is duly formed, validly existing and in good standing in the jurisdiction of its organization. The Purchaser has all requisite power and authority to carry on its business as it is currently being conducted.

(b) Authority. The Purchaser has full power and authority to enter into, execute and deliver the Transaction Documents and each agreement, certificate, document and instrument to be executed and delivered by the Purchaser pursuant to the Transaction Documents and to perform its obligations hereunder and thereunder. The execution and delivery by the Purchaser of the Transaction Documents and the performance by the Purchaser of its obligations hereunder and thereunder have been duly authorized by all requisite actions on its part.

(c) Valid Agreement. Each of the Transaction Documents has been duly executed and delivered by the Purchaser and constitutes the legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by the availability of specific performance, injunctive relief, or other equitable remedies.

(d) Non-contravention. Neither the execution and the delivery of this Agreement or any other Transaction Document, nor the consummation of the transactions contemplated hereby and thereby, will (i) violate any provision of the organizational documents of the Purchaser or violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental entity or court to which the Purchaser is subject, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of or creation of an encumbrance under, or create in any party the right to accelerate, terminate, modify, or cancel, any agreement, contract, lease, license, instrument, or other arrangement to which the Purchaser is a party or by which the Purchaser is bound or to which any of the Purchaser's assets are subject. There is no action, suit or proceeding, pending or, threatened against the Purchaser that questions the validity of this Agreement or other Transaction Documents or the right of the Purchaser to enter into this Agreement or other Transaction Documents or to consummate the transactions contemplated hereby and thereby.

(e) Consents and Approvals. Neither the execution and delivery by the Purchaser of this Agreement or other Transaction Documents, nor the consummation by the Purchaser of any of the transactions contemplated hereby or thereby, nor the performance by the Purchaser of this Agreement or any other Transaction Documents in accordance with its terms requires the consent, approval, order or authorization of, or registration with, or the giving notice to, any governmental or public body or authority or any third party, except such as have been or will have been obtained, made or given on or prior to the Closing Date.

(f) Status and Investment Intent

(i) Experience. The Purchaser has sufficient knowledge and experience in financial and business matters so as to be capable of evaluating the merits and risks of its investment in the Purchased Shares. The Purchaser is capable of bearing the economic risks of such investment, including a complete loss of its investment.

(ii) Purchase Entirely for Own Account. The Purchaser is acquiring the Purchased Shares for its own account for investment purposes only and not with the view to, or with any intention of, resale, distribution or other disposition thereof. The Purchaser does not have any direct or indirect arrangement, or understanding with any other person to distribute, or regarding the distribution of the Purchased Shares in violation of the Securities Act or any other applicable state securities law.

(iii) Solicitation. The Purchaser (x) was not identified or contacted through the marketing of the Purchased Shares and (y) did not contact the Company as a result of any general solicitation or directed selling efforts.

(iv) Restricted Securities. The Purchaser acknowledges that the Purchased Shares are “restricted securities” that have not been registered under the Securities Act or any applicable state securities law. The Purchaser further acknowledges that, absent an effective registration under the Securities Act, the Purchased Shares may only be offered, sold or otherwise transferred (x) to the Company, (y) outside the United States in accordance with Rule 904 of Regulation S or (z) pursuant to an exemption from registration under the Securities Act, including Rule 144 under the Securities Act, provided that the holding period and other requirements thereof have been met.

(v) Information. The Purchaser has been furnished access to all materials and information the Purchaser has requested relating to the Company and its Subsidiaries and other due diligence documents in order to evaluate the transactions contemplated by this Agreement. The Purchaser is relying solely on its own counsel and other advisors as to the financial, tax, legal and related matters concerning an investment in the Purchased Shares.

(vi) Not U.S. Person. The Purchaser is not a “U.S. person” as defined in Rule 902 of Regulation S.

(vii) Offshore Transaction. The Purchaser has been advised and acknowledges that in issuing the Purchased Shares to the Purchaser pursuant hereto, the Company is relying upon the exemption from registration provided by Regulation S. The Purchaser is acquiring the Purchased Shares in an offshore transaction in reliance upon the exemption from registration provided by Regulation S.

(viii) FINRA. The Purchaser does not, directly or indirectly, own more than five per cent of the outstanding common stock (or other voting securities) of any member of the Financial Industry Regulatory Authority, Inc. (“**FINRA**”) or a holding company for a FINRA member, and is not otherwise a “restricted person” for the purposes of FINRA Rule 5130.

ARTICLE III

COVENANTS

Section 3.1 Distribution Compliance Period. The Purchaser agrees not to resell, pledge or transfer any of the Purchased Shares within the United States or to any U.S. Person, as each of those terms is defined in Regulation S, during the forty (40) days following the Closing Date.

Section 3.2 Lock-Up. For a period of 180 days from the Closing Date, the Purchaser shall not Transfer (as defined below) any Purchased Shares or enter into any Hedging Transaction (as defined below). As used herein “**Transfer**” shall mean to, directly or indirectly, sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of, either voluntarily or involuntarily, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of, any interest owned by a person or any interest (including a beneficial interest) in, or the ownership, control or possession of, any interest owned by a person. For purposes of this Agreement, “**Hedging Transaction**” means any short sale (whether or not against the box) or any purchase, sale or grant of any right (including any put or call option) with respect to any security (other than a broad-based market basket or index or exchange-traded fund) that includes, relates to or derives any significant part of its value from the Purchased Shares. Notwithstanding the foregoing, the restrictions set forth herein shall not apply to Transfers or distributions of the Purchased Shares to the Purchaser’s current or former general or limited partners, subsidiaries, managers or members, stockholders, other equityholders or direct or indirect affiliates (within the meaning of Rule 405 under the Securities Act), *provided*, that in the case of any Transfer or distribution, each transferee or distributee shall agree in writing, in form and substance reasonably satisfactory to the Company, to be bound by the provisions of this Agreement.

Section 3.3 Further Assurances. From the date of this Agreement until the Closing Date, the Company and the Purchaser shall use their reasonable best efforts to fulfill or obtain the fulfillment of the conditions precedent to the consummation of the transactions contemplated hereby.

Section 3.4 CSRC Filings Assistance. The Purchaser understands that the Company is required to make filings with China Securities Regulatory Commission (“**CSRC**”) in respect of the transaction under this Agreement within three (3) days following the Closing. The Purchaser agrees to provide the Company with the information or assistance necessary to complete such CSRC filings.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Survival of the Representations, Warranties and Covenants. All representations, warranties, covenants, obligations or other agreements in this Agreement or in any certificate (including confirmations therein), statement or instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants, obligations, agreements and other provisions shall not survive the Closing and shall terminate and expire upon the occurrence of the Closing (and there shall be no liability after the Closing in respect thereof), except for those covenants and agreements contained in this Agreement that by their terms expressly apply in whole or in part after the Closing, and then only with respect to (a) any breaches occurring after the Closing and (b) this Article IV.

Section 4.2 Governing Law; Arbitration. This Agreement shall be governed and interpreted in accordance with the laws of the State of New York. Any dispute arising out of or relating to this Agreement, including any question regarding its existence, validity or termination shall be referred to and finally resolved by arbitration at the Hong Kong International Arbitration Centre in accordance with the Hong Kong International Arbitration Centre Administered Arbitration Rules then in force. There shall be one arbitrator, who shall be appointed by the Hong Kong International Arbitration Centre. The language to be used in the arbitration proceedings shall be English. Each of the Parties irrevocably waives any immunity to jurisdiction to which it may be entitled or become entitled (including without limitation sovereign immunity, immunity to pre-award attachment, immunity to post-award attachment or otherwise) in any arbitration proceedings and/or enforcement proceedings against it arising out of or based on this Agreement or the transactions contemplated hereby.

Section 4.3 Amendment. This Agreement shall not be amended, changed or modified, except by another agreement in writing executed by the Parties.

Section 4.4 Binding Effect. This Agreement shall inure to the benefit of, and be binding upon, each of the Parties and their respective heirs, successors and permitted assigns and legal representatives.

Section 4.5 Assignment. Neither this Agreement nor any of the rights, duties or obligations hereunder may be assigned by a Party without the express written consent of the other Party. Any purported assignment in violation of the foregoing sentence shall be null and void.

Section 4.6 Notices. All notices, requests, demands, and other communications under this Agreement shall be in writing and shall be deemed to have been duly given on the date of actual delivery if delivered personally to the Party to whom notice is to be given, on the date sent if sent by email, on the next business day following delivery to an overnight courier service or on the day of attempted delivery by postal service if mailed by registered or certified mail, return receipt requested, postage paid, in each case properly addressed as follows:

If to the Purchaser, at: [_____]
Address: [_____]
Attn: [_____]
Email: [_____]

If to the Company, at: EHang Holdings Limited
[_____]
Attn: [_____]
Email: [_____]

Any Party may change its address for purposes of this Section 4.6 by giving the other Parties hereto written notice of the new address in the manner set forth above.

Section 4.7 Entire Agreement. This Agreement and the other Transaction Documents together constitute the entire understanding and agreement between the Parties with respect to the matters covered hereby, and all prior agreements and understandings, oral or in writing, if any, between the Parties with respect to the matters covered hereby are merged and superseded by this Agreement and the other Transaction Documents.

Section 4.8 Severability. If any provisions of this Agreement shall be adjudicated to be illegal, invalid or unenforceable in any action or proceeding whether in its entirety or in any portion, then such provision shall be deemed amended, if possible, or deleted, as the case may be, from the Agreement in order to render the remainder of the Agreement and any provision thereof both valid and enforceable, and all other provisions hereof shall be given effect separately therefrom and shall not be affected thereby.

Section 4.9 Fees and Expenses. Except as otherwise provided in this Agreement, each of the Parties will bear their respective expenses incurred in connection with the negotiation, preparation and execution of this Agreement and the transactions contemplated hereby, including fees and expenses of attorneys, accountants, consultants and financial advisors.

Section 4.10 Confidentiality. Each Party shall keep in confidence, and shall not use (except for the purposes of the transactions contemplated hereby) or disclose, any non-public information disclosed to it or its affiliates, representatives or agents in connection with this Agreement and other Transaction Documents or the transactions contemplated hereby and thereby, except as required by applicable law and stock exchange rules (including CSRC requirements under PRC applicable laws). Each Party shall ensure that its affiliates, representatives and agents keep in confidence, and do not use (except for the purposes of the transactions contemplated hereby) or disclose, any such non-public information, except as required by applicable law and stock exchange rules.

Section 4.11 Specific Performance. The Parties agree that irreparable damage would occur in the event any provision of this Agreement were not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or equity.

Section 4.12 Termination. In the event that the Closing shall not have occurred by November 11, 2024, either the Company or the Purchaser may terminate this Agreement by written notice to the other; except for the provisions of Section 1.2(b) and Section 4.10 hereof, which shall survive any termination under this Section 4.12.

Section 4.13 Headings. The headings of the various articles and sections of this Agreement are inserted merely for the purpose of convenience and do not expressly or by implication limit, define or extend the specific terms of the section so designated.

Section 4.14 Execution in Counterparts. For the convenience of the Parties and to facilitate execution, this Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one and the same instrument.

[signature pages follow]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date first above written.

EHANG HOLDINGS LIMITED

By: _____
Name: Huazhi Hu
Title: Chief Executive Officer

[_____]

By: _____
Name: [_____] _____
Title: [_____]

[Signature Page to Subscription Agreement – EHang Holdings Limited]

List of Principal Subsidiaries and Consolidated Affiliated Entities

Principal Subsidiaries

	<u>Place of Incorporation</u>
Ehfly Technology Limited	Hong Kong
EHang Intelligent Equipment (Guangzhou) Co., Ltd.	PRC
Yunfu EHang Intelligent Technology Limited	PRC

Consolidated Affiliated Entities

	<u>Place of Incorporation</u>
Guangzhou EHang Intelligent Technology Co., Ltd.	PRC
Guangdong EHang General Aviation Co., Ltd.	PRC

EHANG HOLDINGS LIMITED
STATEMENT OF POLICIES
GOVERNING MATERIAL NON-PUBLIC INFORMATION AND
THE PREVENTION OF INSIDER TRADING

(Adopted by the board of directors of EHang Holdings Limited on October 22, 2019 effective upon the effectiveness of the company's registration statement on Form F-1 relating to the company's initial public offering)

This Statement of Policies Governing Material Non-Public Information and the Prevention of Insider Trading (this "**Statement**") applies to all directors, officers, employees and consultants of EHang Holdings Limited and its subsidiaries and affiliated entities (collectively, the "**Company**").

This Statement consists of three sections: Section I provides an overview; Section II sets forth the Company's policies prohibiting insider trading; and Section III explains insider trading.

I. SUMMARY

Preventing insider trading is necessary to comply with United States securities laws and to preserve the reputation and integrity of the Company, as well as that of all persons affiliated with it. "**Insider trading**" occurs when any person purchases or sells any securities while in possession of inside information relating to the securities. As explained in Section III below, "**inside information**" is information which is considered to be both "**material**" and "**non-public**."

The Company considers strict compliance with the policies set forth in this Statement (collectively, the "**Policy**") to be a matter of utmost importance. Violation of the Policy could cause extreme reputational damage and possible legal liability to you and the Company. Knowing or willful violations of the letter or spirit of the Policy will be grounds for immediate dismissal from the Company. Violation of the Policy might expose the violator to severe criminal penalties, as well as civil liability to any person harmed by the violation. The monetary damages flowing from a violation could be multiple times the profit realized by the violator, not to mention the attorney's fees of the persons harmed.

This Statement applies to all directors, officers, employees and consultants of the Company and extends to all of such persons' activities within and outside their duties at the Company. Every director, officer, employee and consultant of the Company must review this Statement, and when requested by the Company, must execute and return the Certificate of Compliance attached hereto to the Compliance Officer for the Company (the "**Compliance Officer**") within seven (7) days after receiving the request. Questions regarding this Statement should be directed to the Compliance Officer by e-mail at .

II. POLICIES PROHIBITING INSIDER TRADING

For purposes of this Statement, the terms "**purchase**" and "**sell**" of securities exclude the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards, if applicable, that does not involve the sale of securities. Among other things, the cashless exercise of options does involve the sale of securities and therefore is subject to the policies set forth below. The Policy does not apply to the exercise of a tax withholding right pursuant to which you elect to have the Company withhold ordinary shares or American Depositary Shares ("**ADSs**") subject to an option or other award to satisfy tax withholding requirements.

A. **No Trading** – No director, officer, employee or consultant of the Company may purchase or sell any ADSs, ordinary shares or other securities of the Company or enter into a binding security trading plan in compliance with Rule 10b5-1 under the U.S. Securities Exchange Act of 1934, as amended (a "**Trading Plan**") while in possession of material non-public information relating to the Company or its ADSs, ordinary shares or other securities (the "**Material Information**").

In the event that the Material Information possessed by you relates to the ADSs or other securities of the Company, the above policy will require waiting for at least forty-eight (48) hours after public disclosure of the Material Information by the Company, which forty-eight (48) hours shall include in all events at least one full Trading Day on the stock exchange where the Company's ADSs representing its ordinary shares are listed and traded (the "Stock Exchange") following such public disclosure. The term "Trading Day" is defined as a day on which the Stock Exchange is open for trading. Except for public holidays in the United States, the Stock Exchange's regular trading hours are from 9:30 a.m. to 4:00 p.m., New York City time, Monday through Friday.

In addition, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan, without the prior clearance by the Compliance Officer, during any period designated as a "limited trading period" by the Company, regardless of whether such director, officer, employee or consultant possesses any Material Information.

Furthermore, all transactions in the securities of the Company (including without limitation, acquisitions and dispositions of the ADSs, the sale of ordinary shares issued upon exercise of options or vesting of other share-based awards and the execution of a Trading Plan, but excluding the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards that does not involve the sale of securities) by directors, officers and key employees designated by the Company from time to time must be pre-approved by the Compliance Officer.

Please see Section III below for an explanation of the Material Information.

B. *Trading Window* – Assuming none of the "no trading" restrictions set forth in Section II-A above applies, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan other than during a Trading Window.

A "Trading Window" is the period in any fiscal quarter of the Company commencing at the close of business on the second Trading Day following the date of the Company's public disclosure of its financial results for the prior year or quarter, as applicable, and ending on December 31, March 31, June 30 or September 30, as the case may be.

In other words,

(1) beginning on January 1 of each year, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan until the close of business on the second Trading Day following the date of the Company's public disclosure of its financial results for the fiscal year ended on December 31 of the prior year, and

(2) beginning on April 1, July 1 and October 1 of each year, no director, officer, employee or consultant of the Company may purchase or sell any securities of the Company or enter into a Trading Plan until the close of business on the second Trading Day following the date of the Company's public disclosure of its financial results for the fiscal quarter ended on March 31, June 30 and September 30 of that year, respectively.

If the Company's public disclosure of its financial results for the prior period occurs on a Trading Day more than four hours before the Stock Exchange closes, then such date of disclosure shall be considered the first Trading Day following such public disclosure.

Please note that trading in any securities of the Company during the Trading Window is not a "safe harbor," and all directors, officers, employees and consultants of the Company should strictly comply with the Policy.

When in doubt, do not trade! Check with the Compliance Officer first.

Notwithstanding the foregoing, sale of securities of the Company pursuant to an existing Trading Plan which was entered into in accordance with the Policy and in compliance with applicable law is not subject to the restrictions on trading in Sections II-A and II-B above.

C. **No Tipping** – No director, officer, employee or consultant of the Company may directly or indirectly disclose any Material Information to anyone who trades in securities (so-called “**tipping**”).

D. **Confidentiality** – No director, officer, employee or consultant of the Company may communicate any Material Information to anyone outside the Company under any circumstances unless approved by the Compliance Officer in advance, or to anyone within the Company other than on a need-to-know basis.

E. **No Comment** – No director, officer, employee or consultant of the Company may discuss any internal matters or developments of the Company with anyone outside the Company, except as required for the performance of regular corporate duties. Unless you are expressly authorized to the contrary, if you receive any inquiries about the Company or its securities by the financial press, research analysts or others, or any requests for comments or interviews, you are required to decline comment and direct the inquiry or request to the Company’s Chief Financial Officer, who is responsible for coordinating and overseeing the release of Company information to the investing public, analysts and others in compliance with applicable laws and regulations.

F. **Corrective Action** – If you become aware that any potential Material Information has been or may have been inadvertently disclosed, you must notify the Compliance Officer immediately so that the Company can determine whether or not corrective action, such as general disclosure to the public, is warranted.

III. EXPLANATION OF INSIDER TRADING

As noted above, “**insider trading**” refers to the purchase or sale of a security while in possession of “**material**” “**non-public**” information relating to the security. “**Securities**” include not only stocks, bonds, notes and debentures, but also options, warrants and similar instruments. “**Purchase**” and “**sale**” are defined broadly under the U.S. federal securities laws. “**Purchase**” includes not only the actual purchase of a security, but any contract to purchase or otherwise acquire a security. “**Sale**” includes not only the actual sale of a security, but any contract to sell or otherwise dispose of a security. These definitions extend to a broad range of transactions, including conventional cash-for-stock transactions, the grant and exercise of stock options and acquisitions and exercises of warrants or puts, calls or other options related to a security. It is generally understood that “**insider trading**” includes the following:

- trading by insiders while in possession of material non-public information;
- trading by persons other than insiders while in possession of material non-public information where the information either was given in breach of an insider’s fiduciary duty to keep it confidential or was misappropriated; and
- communicating or tipping material non-public information to others, including recommending the purchase or sale of a security while in possession of material non-public information.

As noted above, for purposes of this Statement, the terms “**purchase**” and “**sell**” of securities exclude the acceptance of options or other share-based awards granted by the Company and the exercise of options or vesting of other share-based awards that does not involve the sale of securities. Among other things, the cashless exercise of options does involve the sale of securities and therefore is subject to the Policy.

What Facts are Material?

The materiality of a fact depends upon the circumstances. A fact is considered “**material**” if there is a substantial likelihood that a reasonable investor would consider it important in making a decision to buy, sell or hold a security or where the fact is likely to have a significant effect on the market price of the security. Material information can be positive or negative and can relate to virtually any aspect of a company’s business or to any type of security, debt or equity.

Examples of material information include (but are not limited to) information concerning:

- dividends;
- corporate earnings or earnings forecasts;
- changes in financial condition or asset value;
- negotiations for the mergers or acquisitions or dispositions of significant subsidiaries or assets;
- significant new contracts or the loss of a significant contract;
- significant new products or services;
- significant marketing plans or changes in such plans;
- capital investment plans or changes in such plans;
- material litigation, administrative action or governmental investigations or inquiries about the Company or any of its officers or directors;
- significant borrowings or financings;
- defaults on borrowings;
- new equity or debt offerings;
- significant personnel changes;
- changes in accounting methods and write-offs; and
- any substantial change in industry circumstances or competitive conditions which could significantly affect the Company's earnings or prospects for expansion.

A good general rule of thumb: **when in doubt, do not trade.**

What is Non-public?

Information is "**non-public**" if it is not available to the general public. In order for information to be considered public, it must be widely disseminated in a manner making it generally available to investors through such media as Dow Jones, Reuters Economic Services, The Wall Street Journal, Bloomberg, Associated Press, PR Newswire or United Press International. Circulation of rumors, even if accurate and reported in the media, does not constitute effective public dissemination.

In addition, even after a public announcement, a reasonable period of time must lapse in order for the market to react to the information. Generally, one should allow approximately forty-eight (48) hours following publication as a reasonable waiting period before such information is deemed to be public.

Who is an Insider?

"**Insiders**" include directors, officers, employees and consultants of a company and anyone else who has material non-public information about a company. Insiders have independent fiduciary duties to their company and its shareholders not to trade on material non-public information relating to the company's securities. All directors, officers, employees and consultants of the Company are considered insiders with respect to material non-public information about business, activities and securities of the Company. The directors, officers, employees and consultants of the Company may not trade the Company's securities while in possession of material non-public information relating to the Company or tip (or communicate except on a need-to-know basis) such information to others.

It should be noted that trading by members of a director's, officer's, employee's or consultant's household can be the responsibility of such director, officer, employee or consultant under certain circumstances and could give rise to legal and Company-imposed sanctions.

Trading by Persons Other than Insiders

Insiders may be liable for communicating or tipping material non-public information to a third party (a "tippee"), and insider trading violations are not limited to trading or tipping by insiders. Persons other than insiders also can be liable for insider trading, including tippees who trade on material non-public information tipped to them or individuals who trade on material non-public information which has been misappropriated.

Tippees inherit an insider's duties and are liable for trading on material non-public information tipped to them by an insider. Similarly, just as insiders are liable for the insider trading of their tippees, so are tippees who pass the material non-public information along to others who trade on such information. In other words, a tippee's liability for insider trading is no different from that of an insider. Tippees can obtain material non-public information by receiving overt tips from others or through, among other things, conversations at social, business, or other gatherings.

Penalties for Engaging in Insider Trading

Penalties for trading on or tipping material non-public information can extend significantly beyond any profits made or losses avoided, both for individuals engaging in the unlawful conduct and their employers. The United States Securities and Exchange Commission and the United States Department of Justice have made the civil and criminal prosecution of insider trading violations a top priority. Enforcement remedies available to the government or private plaintiffs under the U.S. federal securities laws include:

- administrative sanctions;
- sanctions by self-regulatory organizations in the securities industry;
- civil injunctions;
- damage awards to private plaintiffs;
- disgorgement of profits gained by the violator;
- civil fines for the violator of up to three times the amount of profit gained or loss avoided by the violator;
- civil fines for the employer or other controlling person of a violator (i.e., where the violator is an employee or other controlled person) of up to the greater of US\$1,000,000 or three times the amount of profit gained or loss avoided by the violator;
- criminal fines for individual violators of up to US\$5,000,000 (US\$25,000,000 for an entity); and
- jail sentences of up to 20 years.

In addition, insider trading could result in serious sanctions by the Company, including immediate dismissal. Insider trading violations are not limited to violations of the U.S. federal securities laws. Other U.S. federal and state civil or criminal laws, such as the laws prohibiting mail and wire fraud and the Racketeer Influenced and Corrupt Organizations Act (RICO), also may be violated upon the occurrence of insider trading.

Inside Information Regarding Other Companies

This Policy and the guidelines described herein also apply to material and non-public information relating to other companies, including the Company's customers, vendors, suppliers and other business partners ("**Business Partners**"), particularly when that information is obtained in the course of employment with, or other services performed by, or on behalf of, the Company. Civil and criminal penalties, and discipline, including termination of employment for cause, may result from trading on inside information regarding the Company's Business Partners. Each individual should treat material nonpublic information about the Company's Business Partners with the same care required with respect to information related directly to the Company.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Huazhi Hu, certify that:

1. I have reviewed this annual report on Form 20-F of EHang Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 15, 2025

By: /s/ Huazhi Hu
Name: Huazhi Hu
Title: Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Conor Chia-hung Yang, certify that:

1. I have reviewed this annual report on Form 20-F of EHang Holdings Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 15, 2025

By: /s/ Conor Chia-hung Yang
Name: Conor Chia-hung Yang
Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of EHang Holdings Limited (the “Company”) on Form 20-F for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Huazhi Hu, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 15, 2025

By: /s/ Huazhi Hu
Name: Huazhi Hu
Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of EHang Holdings Limited (the “Company”) on Form 20-F for the year ended December 31, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Conor Chia-hung Yang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 15, 2025

By: /s/ Conor Chia-hung Yang
Name: Conor Chia-hung Yang
Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-237769 and No. 333-278954) and Form F-3 (No. 333-278830) of EHang Holdings Limited of our report dated April 15, 2025 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shenzhen, the People's Republic of China
April 15, 2025

Date: April 15, 2025

EHang Holdings Limited

11/F Building One, EHang Technology Park
No. 29 Bishan Blvd., Huangpu District
Guangzhou, 510700
The People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference to our firm and the summary of our opinion under the headings, “Item 3. Key Information—Our Corporate Structure and Contractual Arrangements with the VIE and its Shareholders”, “Item 3. Key Information—D. Risk Factors—Risks Relating to Our Corporate Structure”, “Item 4. Information on the Company—C. Organizational Structure”, “Item 4. Information on the Company—B. Business Overview—PRC Regulation” and “Item 10. Additional Information—E. Taxation—PRC Taxation” in EHang Holdings Limited’s Annual Report on Form 20-F for the year ended December 31, 2024 (the “Annual Report”), which will be filed with the Securities and Exchange Commission (the “SEC”) in April 2025, and further consent to the incorporation by reference of the summary of our opinion under these headings into the Registration Statements on Form S-8 (No. 333-237769 and No. 333-278954) and Form F-3 (No. 333-278830) of EHang Holdings Limited. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours Sincerely,

/s/ AllBright Law Offices

AllBright Law Offices



Our ref YCU/752797-000001/31649581v1

EHang Holdings Limited
11/F Building One, EHang Technology Park
No. 29 Bishan Blvd., Huangpu District
Guangzhou, 510700
People's Republic of China

April 15, 2025

Dear Sirs

EHang Holdings Limited

We have acted as legal advisers as to the laws of the Cayman Islands to EHang Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2024 (the "**Annual Report**").

We hereby consent to the reference to our firm under the heading "Item 10. Additional Information—E. Taxation—Cayman Islands Taxation" in the Annual Report, and further consent to the incorporation by reference into the Registration Statement on Form S-8 (File No. 333-237769) filed on 21 April 2020, Form F-3 (File No. 333-278830) filed on 19 April 2024 and Form S-8 (File No. 333-278954) filed on 26 April 2024 of the summary of our opinion under the heading "Item 10. Additional Information—E. Taxation—Cayman Islands Taxation" in the Annual Report.

We consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Maples and Calder (Hong Kong) LLP

Maples and Calder (Hong Kong) LLP