*Unless otherwise defined herein, capitalized terms in this announcement shall have the same meanings as those defined in the listing document dated June 29, 2022 (the "**Listing Document**") issued by Li Auto Inc.(the "**Company**").*

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Li Auto Inc.
理想汽車

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)

(Stock Code: 2015)

ISSUANCE OF CLASS A ORDINARY SHARES UNDER GENERAL MANDATE

This announcement is issued pursuant to Rules 12.02, 13.09(2)(a) and 13.28 of the Rules Governing the Listing of Securities (the "**Listing Rules**") and Part XIVA of the Securities and Futures Ordinance.

THE LISTING

On June 28, 2022 (U.S. Eastern Time), the Company filed a prospectus supplement in the United States to sell up to an aggregate of US$2 billion of American depositary shares ("**ADSs**"), each representing two Class A ordinary shares of the Company (the "**Class A Ordinary Shares**"), through the US ATM Offering, being an at the market equity offering program.

The ADSs will be offered through Goldman Sachs (Asia) L.L.C., UBS Securities LLC, Barclays Capital Inc. and China International Capital Corporation Hong Kong Securities Limited as the Sales Agents. The ADSs will be offered under the Company's existing shelf registration statement on Form F-3, which was filed with the U.S. Securities and Exchange Commission (the "**SEC**") and automatically became effective on August 2, 2021 (U.S. Eastern Time). A prospectus supplement relating to the US ATM Offering has been filed with the SEC.

The US ATM Offering will be conducted in the United States only and will not constitute a public offering in Hong Kong. No application for the securities offered under the US ATM Offering will be accepted in Hong Kong and the Company will not issue any prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) or application form in respect of the US ATM Offering in Hong Kong.

Features of the US ATM Offering

The US ATM Offering is an at the market equity offering program that will be conducted on the Nasdaq Global Select Market through the Sales Agents, acting as the Company's agents, to investors placing buy orders on such markets (which may be professional, institutional, retail or other investors).

In the US ATM Offering, ADSs will be sold at the prevailing trading price of the ADSs on the Nasdaq in multiple on-market transactions over a period of time. During the US ATM Offering, the Company will designate the maximum number of ADSs to be sold and the floor price at which any ADSs may be sold from time to time. The Sales Agents will execute the trades on a day-to-day basis subject to the instructions of the Company. The Sales Agents will stipulate the offer price of the ADSs in each sell order subject to the floor price stipulated by the Company, and the ADSs will be sold through transactions where the sell orders are automatically matched with the buy orders in the open market by the trading system of the Nasdaq. The amount of ADSs to be issued each day under the US ATM Offering is expected to be small, which typically represents less than 10% of the average daily trading volume ("**ADTV**") of the Company.

There will be no marketing or bookbuilding process for the US ATM Offering. Price discovery in the US ATM Offering is through the automatic matching of buy and sell orders in the open market on Nasdaq by the trading system of the said stock exchange.

The US ATM Offering is subject to certain customary conditions precedent set out in the equity distribution agreement entered into between the Company and the Sales Agents on June 28, 2022, including (in summarised terms) certain regulatory filings having been made; there being no material adverse change affecting the business, operations or financials of the Group or the ability of the Company to perform its obligations in connection with the US ATM Offering; the ADSs to be sold at each settlement date shall have been listed on the Nasdaq; and the grant by the Stock Exchange of the listing of, and permission to deal in, the Class A Ordinary Shares underlying the ADSs to be sold under the US ATM Offering having been effective and not been subsequently withdrawn.

The Company will suspend the US ATM Offering (i) during the blackout periods within the meaning under Rule A3 of Appendix 10 (*Model Code for Securities Transactions by Directors of Listed Issuers*) of the Listing Rules or (ii) when the Company is in possession of any undisclosed inside information.

Listing Rules implications

As the US ATM Offering is an offering of securities by the Company to the public in the United States, it constitutes an "offer for subscription" under Rule 7.02 of the Listing Rules. Accordingly, subject to the relevant waivers from strict compliance with the Listing Rules (the "**Waivers**") described in the section "Waivers from strict compliance with the Listing Rules" below, the US ATM Offering is subject to the requirements of Rules 7.03 and 7.05 of the Listing Rules; the listing document required under Rule 7.05 of the Listing Rules shall comply with the relevant requirements in Chapter 11 and Appendix 1B of the Listing Rules; a formal notice shall be issued in accordance with Rule 12.02(1) of the Listing Rules; and an allotment results announcement shall be issued in accordance with Rule 12.08 of the Listing Rules.

As the Class A Ordinary Shares underlying the ADSs to be issued in connection with the US ATM Offering (the "**Listing Shares**") are proposed to be issued under the General Mandate (defined below), the Company shall issue an announcement in accordance with Rule 13.28 of the Listing Rules subject to the relevant Waivers.

Subject to the relevant Waivers, issue of securities to connected persons of the Company under the US ATM Offering is subject to the requirements under Chapter 14A of the Listing Rules and Note 1 to Rule 13.36(2)(b), and would only be permitted in the circumstances set out in Rule 14A.92 of the Listing Rules unless independent shareholders' approval has been obtained.

Subject to the relevant Waivers, the Company is required to issue next day disclosure returns and monthly returns under Rules 13.25A and 13.25B of the Listing Rules in connection with the US ATM Offering.

General Mandate

The Listing Shares are proposed to be issued under the general mandate granted to the Directors pursuant to resolutions of the shareholders of the Company passed on May 17, 2022 to allot, issue and deal with up to 413,143,082 Class A Ordinary Shares (the "**General Mandate**"). As at the date of this announcement, no shares of the Company have been issued under the said General Mandate.

As an estimate, based on the average closing price of the ADS on the Nasdaq for the five trading days preceding June 24, 2022, the Company expects that it will not issue more than 53,835,800 ADSs pursuant to the US ATM Offering, representing 107,671,600 Class A Ordinary Shares of the Company with an aggregate nominal value of approximately US$10,767, which in turn represent (i) approximately 5.2% of the 2,065,715,410 ordinary shares of the Company in issue as of the Latest Practicable Date, and (ii) approximately 5.0% of ordinary shares of the Company in issue as enlarged by such Class A Ordinary Shares. Such Class A Ordinary Shares will utilize approximately 26.1% of the Class A Ordinary Shares that can be allotted and issued by the Company under the General Mandate. As such, the allotment and issue of the relevant Listing Shares is not subject to additional approval of the Company's shareholders.

The Listing Shares shall, when issued and fully paid, rank *pari passu* in all respects with the other Class A Ordinary Shares in issue or to be issued by the Company on or prior to the completion of the US ATM Offering including the rights to all dividends and other distributions declared, made or paid at any time after the date of issuance.

Application for Listing

The securities of our Company are dual primary listed on the Nasdaq Global Select Market and the Hong Kong Stock Exchange. The ADSs of our Company, each of which represents two Class A Ordinary Shares, were listed and began trading on the Nasdaq Global Select Market under the symbol "LI" on July 30, 2020. On June 27, 2022 (U.S. Eastern Time), the last reported trading price of the ADSs on the Nasdaq Global Select Market was US$39.13 per ADS (or US$19.57 per Share). The Class A Ordinary Shares our Company, were listed and began trading on the Stock Exchange under the stock code "2015" on August 12, 2021. On June 28, 2022 (Hong Kong Time), the last reported trading price of the Class A Ordinary Shares on the Stock Exchange was HK$158.3 per Share.

An application has been made by the Company to the Stock Exchange for the granting of the listing of, and permission to deal in up to 107,671,600 Listing Shares underlying the ADSs (as determined based on the average closing price of the ADS on the Nasdaq for the five trading days preceding June 24, 2022) to be issued in connection to the US ATM Offering.

Settlement of the ADSs to be issued under the US ATM Offering will take place on or before the second business day following the date on which the relevant sale is made. Dealings in the Listing Shares would commence on the Stock Exchange only after the holder of the relevant ADSs converts the ADSs into Class A Ordinary Shares following the procedures disclosed in the section head "Information about this Document and the Global Offering — Converting ADSs to Class A Ordinary Shares trading in Hong Kong" in the Prospectus.

The Company will disclose the number of ADSs and the underlying Listing Shares issued, the price range, and net issue price of each security issued under the US ATM Offering in the preceding quarter in its upcoming quarterly earnings releases.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, the Company has sought the following Waivers.

Issuance of ADSs in the US ATM Offering to connected persons

Unless fully exempt under Rule 14A.92 of the Listing Rules, issuance of new securities by a listed issuer to a connected person would need to comply with the requirements of Chapter 14A of the Listing Rules, including announcement, independent shareholders' approval and circular requirements. The Company notes that none of the exemptions in Rule 14A.92 is applicable in connection with the US ATM Offering.

Note 1 to Rule 13.36(2)(b) of the Listing Rules provides that "other than where independent shareholders' approval has been obtained, an issue of securities to a connected person pursuant to a general mandate given under rule 13.36(2)(b) is only permitted in the circumstances set out in rule 14A.92".

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Chapter 14A and Note 1 to Rule 13.36(2)(b) of the Listing Rules to permit the issuance of ADSs to the connected persons of the Company under the US ATM Offering without complying with the announcement, independent shareholders' approval and circular requirements, on the grounds and condition set out below:

(a) *Identities of buyers/sellers of ADSs on market not available.* The ADSs issued under the US ATM Offering will be sold on-market on the Nasdaq and other trading platforms where the buy and sell orders are automatically matched by the clearing system. That is, the identity of the underlying buyer/seller is not displayed or otherwise available to the counterparty in the trading system; the most that one may see when conducting on-market trades is the immediate entity placing the buy/sell order which is usually the broker who carries out trades for the underlying buyer/seller on agency basis. As such, it would not be possible for the Company or the sale agent(s) to identify, vet or select the underlying buyers in the US ATM offering. Similarly, it would not be possible for the buyer to identify the underlying sellers of ADSs on market to be able to choose to buy ADSs issued under the US ATM Offering or those sold by existing ADS holders. As such, in the US ATM Offering, the Company will not knowingly sell ADSs to any connected persons and the connected persons will not knowingly purchase ADSs sold by the Company.

(b) *Unduly burdensome for the Company to convene an extraordinary general meeting to seek independent shareholders' approval.* In the absence of the waiver sought, issuance of ADSs under the US ATM Offering to connected persons of the Company would require approval by independent shareholders of the Company in a general meeting. Considering the Company has held its annual general meeting recently in May 2022, the Company would need to convene an extraordinary general meeting. As the Company has dual primary listings in the United States and Hong Kong, the procedure for it to convene a general meeting is burdensome and time-consuming. It requires global coordination among various parties, including, amongst others, the share registrars, the depositary bank and Hong Kong Securities Clearing Company Limited. This procedure would require the Company, with the help of the depositary bank, to distribute the meeting notice and proxy form to, and collect vote cards from, the ADS holders. In addition, for an extraordinary general meeting, the Company will need to give at least 14 days' notice to the shareholders in accordance with its Articles of Association.

    It would therefore be unduly burdensome for the Company to expend considerable resources, and cause substantial delay in the launch of the US ATM Offering which may risk missing an optimum market window, to convene a general meeting to seek the independent shareholders' approval to approve any purchase of ADSs or Class A Ordinary Shares by connected persons during the US ATM Offering.

(c) *No preferential treatment.* Since the US ATM Offering is conducted on the Nasdaq at the prevailing trading prices through automatically matched buy and sell orders, even if a connected person purchases ADSs on the Nasdaq which were a part of the US ATM Offering, that person would receive no preferential treatment and would pay the same price. In addition, given all the trades will be conducted on-market, there is no "pricing" or "allocation" processes through which a connected person may potentially assert any influence over the terms of the US ATM Offering. As such, the interests of the shareholders of the Company as a whole will not be prejudiced as a result of connected persons purchasing ADSs under an US ATM Offering. Accordingly, the Company considers there is no undue risk to the independent shareholders of the Company.

(d) *Connected persons unfairly prejudiced.* Even if the Company and the connected persons fully intend to avoid selling to/buying from each other the securities under the US ATM Offering, they would be practically unable to do so. As such, in the absence of the waiver sought, connected persons of the Company would effectively be prevented from buying ADSs on-market entirely during the term of the US ATM Offering. This would place connected persons of the Company (who, as described in (c) above, do not receive any preferential treatment or could influence the terms of the US ATM Offering) in an unfairly disadvantageous position as compared with other independent members of the public.

(e) *No comparable restriction in the United States.* The applicable U.S. rules do not require independent shareholders' approval to permit connected persons to participate in the Company's public offerings in the United States, including an ATM offering. Under applicable U.S. rules, if a director or senior management participates in an ATM offering, he or she may merely be required to disclose changes to his or her shareholding interest depending on the number of shares that he or she purchased.

(f) *Condition for the waiver.* The waiver is granted on the condition that any connected person who is involved in setting (i) the floor price; and/or (ii) the maximum number of shares to be sold under the US ATM Offering from time to time, must not buy any ADS or Class A Ordinary Share during the term of the US ATM Offering.

Disclosure requirements under Rule 13.28 of the Listing Rules

According to Rule 13.28 of the Listing Rules, where the Directors agree to issue securities for cash pursuant to a general mandate granted by the shareholders of the issuer to allot or issue securities under Rule 13.36(2)(b) of the Listing Rules, the Company shall publish an announcement containing certain specified information

Due to the features of the US ATM Offering, however, the following required information would not be available at the time of the launch of the US ATM Offering: (i) the number and aggregate nominal value of the securities to be issued, (ii) the total funds to be raised and the use of proceeds, (iii) the issue price of each security, and (iv) the net price of each security.

The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 13.28(2)-(5) so that it will not disclose the information set out in the preceding paragraph in this announcement, on the condition that the Company will provide alternative disclosure as follows:

(a) the Company will disclose in this announcement: (i) the target maximum amount to be raised and an estimated maximum number of securities that may be issued in the US ATM Offering, (ii) how the price of the securities to be issued under the US ATM Offering will be determined, and (iii) the proposed use of proceeds without specifying the exact amounts of the net or gross proceeds from the US ATM Offering; and

(b) the Company will disclose in its quarterly earnings releases, in respect of the preceding quarter: (i) the number of ADSs issued pursuant to the US ATM Offering, (ii) the price range for which the ADSs were issued, (iii) the total gross and net proceeds received, (iv) the net issue price per ADS, and (v) an update on the use of net proceeds from the US ATM Offering.

Next day disclosure return

Rule 13.25A(1) of the Listing Rules requires a listed issuer to publish a next day disclosure return if any event set out in Rule 13.25A(1) occurs, and Rule 13.25A(2)(a)(xi) further provides that a next day disclosure return would also be required for change in issued shares not falling within any of the categories referred to in Rule 13.25A(2)(a)(i) to (x) or Rule 13.25A(2)(b).

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the next day disclosure return requirement in connection with the US ATM Offering on the grounds and conditions set out below. For the avoidance of doubt, the Company will continue to comply with the next day disclosure return requirements in respect of its other security issuances.

(a) *Unduly burdensome.* Considering the duration and frequency of trading of an US ATM Offering, it would be unduly burdensome for the Company to fully comply with the next day disclosure return requirement:

    (i) Based on observations of the recently announced sizable ATM programs in the United States, the total offering sizes are on average approximately 6.6 times of the ADTV of each such issuer's securities. As the typical daily issuance in ATM offerings is less than 10% of the issuer's ADTV, issuers can expect to take more than 60 trading days to complete an ATM program. With reference to the foregoing, the Company may be required to issue a significant amount of next day disclosure returns during the term of the US ATM Offering.

    (ii) For each next day disclosure return filed on the Stock Exchange, the Company would be required to file a corresponding Form 6-K with the SEC.

    (iii) To collate the information required for each next day disclosure return, the Company would need to coordinate with multiple working parties located in different time zones.

(b) *The amount of securities to be issued each day is expected to be immaterial.* The amount of securities issued each day under an ATM offering is expected to be small, and typically represents less than 10% of the ADTV of the issuer. In the Company's case, such daily issuance volume only represents less than 0.1% of the Company's total issued share capital. Accordingly, the Company considers the disclosure of securities issued during the term of the US ATM Offering on a daily basis would not be material or meaningful to the public.

(c) *The investing public will be sufficiently informed of the progress of the US ATM Offering.* The Company will keep the investing public and its shareholders informed of the progress of the US ATM Offering by:

    (i) issuing a next day disclosure return when the Class A Ordinary Shares underlying the ADSs issued pursuant to the US ATM Offering since the Company's last issued monthly return or next day disclosure return (whichever is later) cumulatively exceed 1% of the Company's total issued shares;

    (ii) issuing monthly returns, which shall include (A) the total number of Class A Ordinary Shares underlying the ADSs issued pursuant to the US ATM Offering, (B) the highest price and the lowest price achieved, and (C) the total gross proceeds received from the US ATM Offering during the preceding month in compliance with Rule 13.25B of the Listing Rules; and

(iii) disclosing updates in respect of the US ATM Offering in its quarterly earnings releases which will be published in both the United Stated and Hong Kong concurrently.

The Company considers the disclosure described above provides meaningful information in respect of the progress of the US ATM Offering at reasonable intervals. Accordingly, there is no undue risk to the shareholders of the Company.

Underwriting

Rule 7.03 of the Listing Rules provides that the subscription of the securities under an offer for subscription must be fully underwritten.

It is a key feature of an ATM offering that it does not require underwriting and the sale of ADSs will be conducted by the Company's sale agent(s) on-market on an agency basis. As there is no fixed or minimum offer size or offer price stipulated for an ATM offering, the Company may simply not issue further ADSs if the price is not satisfactory or when there is no buy orders on-market. There is no need for an ATM offering to have any underwriting arrangement for risk management purposes. The Company also confirms that it will not require any underwriting for the US ATM Offering.

The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 7.03 of the Listing Rules so that the US ATM Offering would not be underwritten.

Disclosure of the amount of securities to be issued pursuant to the US ATM Offering in the Listing Document

Paragraph 10 of Appendix 1B of the Listing Rules requires disclosure of "the nature and amount of the issue including the number of securities which have been or will be created and/or issued, if predetermined", whereas paragraph 22(1) of Appendix 1B of the Listing Rules requires disclosure of the authorised share capital of the issuer, the amount issued or agreed to be issued, the amount paid up, the nominal value and a description of the shares, in the listing document of a listed issuer.

It is an inherent feature of an ATM offering that the offer size is not predetermined at the time of launch; rather, the offer size is usually subject to a maximum dollar amount and the issuer may issue any amount of new securities subject to the said limit. The final total number of securities to be issued will depend on a variety of factors including the market conditions and trading price. As such, at the time of the issuance of the Listing Document, the Company is only able to disclose the target maximum amount to be raised and an estimated maximum number of securities to be issued in the US ATM Offering.

The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with paragraphs 10 and 22(1) of Appendix 1B of the Listing Rules on the condition that it will make alternative disclosure as follows:

(a) the Company will disclose in the Listing Document the target maximum amount to be raised and an estimated maximum number of securities that may be issued pursuant to the US ATM Offering;

(b) the Company will disclose the total number of ADSs and Class A Ordinary Shares issued and the total amount raised pursuant to the US ATM Offering in the preceding quarter in its quarterly earnings releases during the term of the US ATM Offering; and

(c) the Company will disclose the total number of ADSs and Class A Ordinary Shares issued pursuant to the US ATM Offering in the closing announcement to be published at the end of the US ATM Offering.

Accordingly, the Company is of the view that there is no undue risk to the shareholders of the Company.

Timing of liquidity disclosure in the Listing Document

Paragraph 28 of Appendix 1B of the Listing Rules requires disclosure of a statement (or an appropriate negative statement) of an issuer's indebtedness as at a specified most recent practicable date (the "**Most Recent Practicable Date**") (the "**Liquidity Disclosure**"). According to FAQ Series 7, No. 25, the Stock Exchange ordinarily expects that the Most Recent Practicable Date for the Liquidity Disclosure under paragraph 28 of Appendix 1B of the Listing Rules to be not more than 8 weeks before the date of the relevant disclosure document.

Given (i) the Company had, as of March 31, 2022, over 60 subsidiaries and consolidated affiliated entities which are based in multiple cities and locations in China as well as overseas jurisdictions; (ii) the COVID-19 restriction in force in China and other jurisdictions; and (iii) the Company has recently published the unaudited condensed consolidated results of the Group for the three months ended March 31, 2022 on May 10, 2022, it would be unduly burdensome for the Company to provide a Liquidity Disclosure for the end of April 2022 in the Listing Document.

Strict compliance with the Liquidity Disclosure requirements would also constitute an additional one-off disclosure by the Company of its liquidity position on a date that would fall within the second quarter of its financial year, which would otherwise not be required to be disclosed to investors in the U.S. under applicable rules and regulations.

In addition, the Company has published the audited consolidated financial information of the Group for each of the 2019, 2020 and 2021 financial years in its Hong Kong IPO prospectus dated August 3, 2021 (the "**Prospectus**") and the 2021 Annual Report (as the case may be). The said financial information will be incorporated in the Listing Document by reference. The Company's unaudited consolidated financial information for the three months ended March 31, 2022 has also been published in Hong Kong and US on or before the date of the Listing Document. If there are any material changes to the aforementioned financial disclosures, the Company would be required to make an announcement pursuant to U.S. regulations and Nasdaq rules as well as applicable Hong Kong laws and regulations and the Listing Rules. In the event that there is no material change to such disclosures, any similar disclosures made in strict compliance with the timing requirement would not give additional meaningful information to investors.

The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with the timing requirement for the Liquidity Disclosure in the Listing Document under Paragraph 28 of Appendix 1B of the Listing Rules, such that the reported date of the Liquidity Disclosure in the Listing Document will not exceed the requirement under FAQ Series 7, No. 25 by one calendar month, on the condition that the Directors will confirm in the Listing Document that there has been no material adverse change to the Liquidity Disclosure since March 31, 2022 and up to the Latest Practicable Date. Accordingly, the Company is of the view that there is no undue risk to the shareholders of the Company.

Allotment results announcement

Rule 12.08 of the Listing Rules (including the Note thereto) provides that, in the case of an offer for subscription, the issuer must publish an announcement of the results of the offer, the basis of allotment of the securities and, where relevant, the basis of any acceptance of excess applications and information regarding the spread of applications including the number of applications for each share band and the allocation basis for each such band.

As the US ATM Offering will be conducted on-market on Nasdaq where the buy and sell orders are automatically matched, there will not be any "application" process or any "allocation" process. Therefore, the information required to be disclosed pursuant to Rule 12.08 of the Listing Rules are inherently not relevant or available in connection with the US ATM Offering.

In addition, during the term of the US ATM Offering, the Company will issue quarterly updates in respect of the US ATM Offering (which will be published both in the United Stated and in Hong Kong concurrently), monthly returns pursuant to Rule 13.25B of the Listing Rules and next day disclosure returns (subject to the relevant Waiver described above). The Company believes the investing public will be sufficiently informed of the progress of the US ATM Offering.

The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 12.08 of the Listing Rules so that it will not issue any allotment results announcement in connection with the US ATM Offering.

Disclosure of options

Paragraph 25 of Appendix 1B of the Listing Rules requires the Company to set out in the Listing Document particulars of any capital of any member of the Group that is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the option was or will be granted and the price and duration of the option, and the name and address of the grantee, provided that where options have been granted or agreed to be granted to employees under a share scheme, it shall be sufficient, so far as the names and addresses are concerned, to record that fact without giving the names and addresses of the grantees.

The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements under paragraph 25 of Appendix 1B to the Listing Rules in connection with the disclosure of certain details relating to the options and certain grantees on an individual basis in the Listing Document on the ground that the waiver will not prejudice the interest of the investing public and strict compliance with the above requirements would be unduly burdensome for the Company for the following reasons, among others:

(a) as of the Latest Practicable Date, the Company had granted outstanding options under the 2019 Plan and the 2020 Plan (the "**Relevant Plans**", which are subject to the requirements of Chapter 17 of the Listing Rules) to 1,861 grantees (including Directors and senior management of the Company and other employees of the Group), to subscribe for an aggregate of 78,699,370 Class A Ordinary Shares. As of the Latest Practicable Date, among the outstanding options, 44,699,370 were held by employees of the Group (who are not Directors, members of the senior management or connected persons of the Company). The underlying Class A Ordinary Shares of such options represent approximately 2.16% of the total issued shares of the Company, which the Directors consider is not material in the circumstances of the Company, and the exercise in full of such options will not cause any material adverse change in the financial position of the Company. As at the Latest Practicable Date, none of such employee grantees holds options representing more than 1% of the total issued share of the Company;

(b) the Directors consider that it would be unduly burdensome to disclose in the Listing Document full details of all the options granted by the Company to each of the grantees, which would significantly increase the cost and time required for information compilation and preparation for the Listing Document;

(c) material information on the options has been disclosed in the Listing Document to provide the investing public with sufficient information to make an informed assessment of the potential dilutive effect and impact on earnings per Share of the options, and such information includes:

    (i) the aggregate number of Class A Ordinary Shares subject to the options and the percentage of the Shares of which such number represents;

    (ii) the dilutive effect and the impact on earnings per Share upon full exercise of the options;

    (iii) full details of the options granted to Directors and members of the senior management and connected persons (if any) of the Company, on an individual basis, are disclosed in the Listing Document in compliance with paragraph 25 of Appendix 1B to the Listing Rules;

    (iv) with respect to the options granted to other grantees (other than those referred to in (iii) above), the following details will be disclosed in the Listing Document, including the aggregate number of such grantees and the number of Class A Ordinary Shares subject to the options, the consideration paid for the grant of the options and the exercise period and the exercise price for the options; and

    (v) the particulars of the waiver granted by the Stock Exchange, respectively;

(d) the Directors consider that strict compliance with the above disclosure requirements would not provide the investing public with any additional meaningful information.

In light of the above, the Directors are of the view that the grant of the waiver sought under this application and the non-disclosure of the required information will not prejudice the interests of the investing public.

The Stock Exchange has granted to the Company a waiver from strict compliance with the disclosure requirements under paragraph 25 of Appendix 1B to the Listing Rules with respect to the options granted under the Relevant Plans on the condition that:

(a) on an individual basis, full details of the options granted under the Relevant Plans to each of the Directors and the senior management and connected persons (if any) of the Company, will be disclosed in the Listing Document as required under paragraph 25 of Appendix 1B to the Listing Rules;

(b) in respect of the options granted under the Relevant Plans to other grantees (other than those set out in (a) above), disclosure will be made in the Listing Document on an aggregate basis, including (1) the aggregate number of such grantees and the number of Shares subject to the options granted to them under the Relevant Plans, (2) the consideration, and (3) the exercise period and the exercise price;

(c) the aggregate number of Class A Ordinary Shares underlying the outstanding options granted under the Relevant Plans and the corresponding percentage of the Company's total issued share capital will be disclosed in the Listing Document;

(d) the dilutive effect and impact on earnings per Share upon the full exercise of the options under the Relevant Plans will be disclosed in the Listing Document; and

(e) the particulars of this waiver will be disclosed in the Listing Document.

REASONS FOR THE US ATM OFFERING AND USE OF PROCEEDS

The maximum gross proceeds from the US ATM Offering will be US$2 billion. As it is not mandatory for the Company to reach the said maximum gross proceeds under the US ATM Offering, the precise gross and net proceeds under the US ATM Offering is not determinable as at the date of this announcement. The Company will instead disclose the total gross and net proceeds received and an update on the use of net proceeds from the US ATM Offering in the preceding quarter in its upcoming quarterly earnings releases.

The Company intends to use the net proceeds from the US ATM Offering for (i) research and development of next-generation electric vehicle technologies including technologies for BEVs, smart cabin, and autonomous driving, (ii) development and manufacture of future platforms and car models, and (iii) working capital needs and general corporate purposes.

To the extent that the net proceeds of the US ATM Offering are not immediately required for the above purposes, the Company may hold such funds in bank deposits at authorized financial institutions and/or licensed banks.

The foregoing represents the Company's current intentions to use and allocate the net proceeds of the US ATM Offering based upon our present plans and business conditions. The management of the Company, however, will have significant flexibility and discretion to apply the net proceeds of the US ATM Offering. If an unforeseen event occurs or business conditions change, the Company may use the proceeds of the US ATM Offering differently than as described herein.

LISTING DOCUMENT

Electronic copies of the Listing Document are available on the websites of the Stock Exchange (http://www1.hkexnews.hk) and the Company (ir.lixiang.com).

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming 53,835,800 ADSs, representing 107,671,600 Class A Ordinary Shares, were issued pursuant to the US ATM Offering (which is the estimated maximum number of ADSs and Class A Ordinary Shares to be issued based on the average closing price of the ADS on the Nasdaq for the five trading days preceding June 24, 2022), and there are no other changes in the share capital of the Company from the date of this announcement up to completion of the US ATM Offering, set out below is the shareholding structure of the Company (i) as at the date of this announcement and (ii) immediately after completion of the US ATM Offering:

	As at the date of this announcement		**Immediately after the completion of the US ATM Offering**	
	Number of Shares	*Approx. %*	*Number of Shares*	*Approx. %*
Shareholder				
Mr. Li Xiang (including his associates)	108,557,400 Class A Ordinary Shares	5.26%	108,557,400 Class A Ordinary Shares	4.99%
	355,812,080 Class B Ordinary Shares	17.22%	355,812,080 Class B Ordinary Shares	16.37%
Mr. Wang Xing (including his associates)	390,253,767 Class A Ordinary Shares	18.89%	390,253,767 Class A Ordinary Shares	17.96%
Other Shareholders	1,211,092,163 Class A Ordinary Shares (including those underlying the existing ADSs)	58.63%	1,318,763,763 Class A Ordinary Shares (including those underlying the existing ADSs)	60.68%
Total	2,065,715,410 Ordinary Shares	100%	2,173,387,010 Ordinary Shares	100%

FUND RAISING DURING THE PAST TWELVE MONTHS

The Company conducted the following fund raising activity through the issue of equity securities in the past twelve months immediately before the date of this announcement:

Date of announcement/ prospectus	Fund raising activity	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
August 3, 2021 and September 5, 2021	113,869,700 Class A Ordinary Shares issued by the Company under the Global Offering (as defined in the Prospectus), including 13,869,700 Class A Ordinary Shares issued by the Company pursuant to the partial exercise of the Over-allotment Option (as defined in the Prospectus)	Approximately HK$13.3 billion	The intended use of the said net proceeds are as disclosed in the Prospectus: (a) 20% allocated to funding the research and development of HPC BEV technologies, platforms, and future models; (b) 15% allocated to funding the research and development of intelligent vehicle and autonomous driving technologies; (c) 10% allocated to funding the research and development of future EREV models; (d) 25% allocated to funding the expansion of production capacity; (e) 10% allocated to funding the expansion of retail stores and delivery and servicing centers; (f) 5% allocated to funding the roll-out of HPC network; (g) 5% allocated to funding marketing and promotion; (h) 10% allocated to working capital and other general corporate purposes to support our business operation and growth.	As at the date of this announcement, approximately HK$3,864.9 million of the said net proceeds have been utilized as follows: (a) HK$399.5 million has been applied towards funding the expansion of retail stores and delivery and servicing centers; and (b) HK$1,809.4 million has been applied towards funding the expansion of production capacity; and (c) HK$329.2 million has been applied towards funding marketing and promotion; and (d) HK$1,326.8 million has been applied towards working capital and other general corporate purposes to support our business operation and growth. There has been no change in the intended use of the said net proceeds as previously disclosed in the Prospectus and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs.

Save as described above, the Company has not conducted any other fund raising activity through the issue of equity securities in the past twelve months immediately before the date of this announcement.

UNAUDITED FINANCIAL RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2022

On June 28, 2022, the Company published the unaudited condensed consolidated results of the Group for the three months ended March 31, 2022, in the United States. Such results have been prepared in accordance with U.S. Generally Accepted Accounting Principles, which are different from the International Financial Reporting Standards. Attached hereto as Schedule I is the full text of the said unaudited condensed consolidated results.

Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the shares and other securities of the Company.

By order of the Board
Li Auto Inc.
Xiang Li
Chairman

Hong Kong, June 29, 2022

As of the date of this announcement, the board of directors of the Company comprises Mr. Xiang Li, Mr. Yanan Shen, and Mr. Tie Li as executive Directors, Mr. Xing Wang and Mr. Zheng Fan as non-executive Directors, and Mr. Hongqiang Zhao, Mr. Zhenyu Jiang, and Prof. Xing Xiao as independent non-executive Directors.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(All amounts in thousands, except for share and per share data)

	As of		
	December 31, 2021 *RMB*	**March 31, 2022** *RMB*	*US$* *Note 2(e)*
ASSETS			
Current assets:			
Cash and cash equivalents	27,854,224	32,055,546	5,056,638
Restricted cash	2,638,840	2,661,026	419,767
Time deposits and short-term investments	19,668,239	16,471,460	2,598,309
Trade receivable, net of allowance for credit losses of RMB467, and RMB202 as of December 31, 2021 and March 31, 2022, respectively	120,541	140,747	22,202
Inventories	1,617,890	1,916,562	302,330
Prepayments and other current assets, net of allowance for credit losses of RMB2,192, and RMB2,174 as of December 31, 2021 and March 31, 2022, respectively	480,680	1,091,652	172,204
Total current assets	**52,380,414**	**54,336,993**	**8,571,450**
Non-current assets:			
Long-term investments	156,306	301,685	47,590
Property, plant and equipment, net	4,498,269	5,098,372	804,248
Operating lease right-of-use assets, net	2,061,492	2,903,906	458,080
Intangible assets, net	751,460	765,464	120,749
Deferred tax assets	19,896	11,811	1,863
Other non-current assets, net of allowance for credit losses of RMB3,757, and RMB3,316 as of December 31, 2021 and March 31, 2022, respectively	1,981,076	2,376,114	374,820
Total non-current assets	**9,468,499**	**11,457,352**	**1,807,350**
Total assets	**61,848,913**	**65,794,345**	**10,378,800**
LIABILITIES			
Current liabilities:			
Short-term borrowings	37,042	136,744	21,571
Trade and notes payable	9,376,050	11,113,443	1,753,103
Amounts due to related parties	37,455	8,159	1,287
Deferred revenue, current	305,092	321,423	50,703
Operating lease liabilities, current	473,245	501,053	79,039
Accruals and other current liabilities	1,879,368	1,870,524	295,066
Total current liabilities	**12,108,252**	**13,951,346**	**2,200,769**
Non-current liabilities:			
Long-term borrowings	5,960,899	7,040,929	1,110,679
Deferred revenue, non-current	389,653	473,903	74,756
Operating lease liabilities, non-current	1,369,825	1,495,883	235,970
Deferred tax liabilities	153,723	142,042	22,407
Other non-current liabilities	802,259	1,233,480	194,576
Total non-current liabilities	**8,676,359**	**10,386,237**	**1,638,388**
Total liabilities	**20,784,611**	**24,337,583**	**3,839,157**
Commitments and contingencies *(Note 26)*			

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

	As of		
	December 31, 2021	**March 31, 2022**	
	RMB	*RMB*	*US$* *Note 2(e)*
SHAREHOLDERS' EQUITY			
Class A Ordinary Shares (US$0.0001 par value; 4,500,000,000 shares authorized, 1,709,903,330 shares issued and 1,573,750,346 shares outstanding as of December 31, 2021 and 4,500,000,000 shares authorized, 1,709,903,330 shares issued and 1,574,524,378 shares outstanding as of March 31, 2022)	1,176	1,176	186
Class B Ordinary Shares (US$0.0001 par value; 500,000,000 shares authorized, 355,812,080 shares issued and outstanding as of December 31, 2021 and March 31, 2022)	235	235	37
Treasury Shares	(89)	(88)	(14)
Additional paid-in capital	49,390,486	49,878,927	7,868,207
Accumulated other comprehensive loss	(1,521,871)	(1,606,987)	(253,496)
Accumulated deficit	(6,805,635)	(6,816,501)	(1,075,277)
Total shareholders' equity	**41,064,302**	**41,456,762**	**6,539,643**
Total liabilities and shareholders' equity	**61,848,913**	**65,794,345**	**10,378,800**

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(All amounts in thousands, except for share and per share data)

	For the Three Months Ended March 31,		
	2021	2022	2022
	RMB	*RMB*	*US$*
			Note 2(e)
Revenues:			
Vehicle sales	3,463,673	9,308,609	1,468,397
Other sales and services	111,528	253,427	39,977
Total revenues	**3,575,201**	**9,562,036**	**1,508,374**
Cost of sales:			
Vehicle sales	(2,878,994)	(7,219,912)	(1,138,913)
Other sales and services	(79,474)	(178,269)	(28,121)
Total cost of sales	**(2,958,468)**	**(7,398,181)**	**(1,167,034)**
Gross profit	**616,733**	**2,163,855**	**341,340**
Operating expenses:			
Research and development	(514,500)	(1,373,962)	(216,737)
Selling, general and administrative	(509,924)	(1,202,967)	(189,763)
Total operating expenses	**(1,024,424)**	**(2,576,929)**	**(406,500)**
Loss from operations	**(407,691)**	**(413,074)**	**(65,160)**
Other (expense)/income			
Interest expense	(14,582)	(10,138)	(1,599)
Interest income and investment income, net	178,472	162,874	25,693
Others, net	(90,211)	279,703	44,122
(Loss)/income before income tax expense	**(334,012)**	**19,365**	**3,056**
Income tax expense	(25,955)	(30,231)	(4,769)
Net loss	**(359,967)**	**(10,866)**	**(1,713)**
Net loss attributable to ordinary shareholders of Li Auto Inc.	**(359,967)**	**(10,866)**	**(1,713)**
Weighted average number of ordinary shares used in computing net loss per share			
Basic	1,809,393,256	1,929,740,892	1,929,740,892
Diluted	1,809,393,256	1,929,740,892	1,929,740,892
Net loss per share attributable to ordinary shareholders			
Basic	(0.20)	(0.01)	0.00
Diluted	(0.20)	(0.01)	0.00
Net loss	**(359,967)**	**(10,866)**	**(1,713)**
Other comprehensive income/(loss), net of tax			
Foreign currency translation adjustment, net of tax	107,644	(85,116)	(13,427)
Total other comprehensive income/(loss), net of tax	**107,644**	**(85,116)**	**(13,427)**
Comprehensive loss attributable to ordinary shareholders of Li Auto Inc.	**(252,323)**	**(95,982)**	**(15,140)**

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(All amounts in thousands, except for share and per share data)

	Class A Ordinary Shares		Class B Ordinary Shares		Treasury Shares			Accumulated Other		Total
	Number of Shares	Amount	Number of Shares	Amount	Shares	Amount	Additional Paid-in Capital	Comprehensive Loss	Accumulated Deficit	Shareholders' Equity
		RMB		*RMB*		*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Balance as of December 31, 2020	**1,453,476,230**	**1,010**	**355,812,080**	**235**	**-**	**-**	**37,289,761**	**(1,005,184)**	**(6,482,225)**	**29,803,597**
Cumulative effect of adoption of credit loss guidance *(Note 2(h))*	–	–	–	–	–	–	–	–	(1,955)	(1,955)
Issuance of ordinary shares as treasury shares	34,000,000	22	–	–	(34,000,000)	(22)	–	–	–	–
Exercise of share options	–	–	–	–	633,012	–	413	–	–	413
Share-based compensation	–	–	–	–	–	–	182,928	–	–	182,928
Foreign currency translation adjustment, net of tax	–	–	–	–	–	–	–	107,644	–	107,644
Net loss	–	–	–	–	–	–	–	–	(359,967)	(359,967)
Balance as of March 31, 2021	**1,487,476,230**	**1,032**	**355,812,080**	**235**	**(33,366,988)**	**(22)**	**37,473,102**	**(897,540)**	**(6,844,147)**	**29,732,660**
Balance as of December 31, 2021	1,709,903,330	1,176	355,812,080	235	(136,152,984)	(89)	49,390,486	(1,521,871)	(6,805,635)	41,064,302
Exercise of share options	–	–	–	–	774,032	1	490	–	–	491
Share-based compensation	–	–	–	–	–	–	487,951	–	–	487,951
Foreign currency translation adjustment, net of tax	–	–	–	–	–	–	–	(85,116)	–	(85,116)
Net loss	–	–	–	–	–	–	–	–	(10,866)	(10,866)
Balance as of March 31, 2022	**1,709,903,330**	**1,176**	**355,812,080**	**235**	**(135,378,952)**	**(88)**	**49,878,927**	**(1,606,987)**	**(6,816,501)**	**41,456,762**

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(All amounts in thousands, except for share and per share data)

	For the Three Months Ended March 31,		
	2021	**2022**	**2022**
			US$
	RMB	*RMB*	*Note 2(e)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	(359,967)	(10,866)	(1,713)
Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:			
Depreciation and amortization	97,276	201,745	31,824
Share-based compensation expenses	182,928	487,950	76,972
Foreign exchange loss	144,229	1,714	270
Unrealized investment loss	35,535	32,190	5,078
Interest expense	12,687	7,333	1,157
Share of loss of equity method investees	322	(464)	(73)
Allowance for credit losses	102	(724)	(114)
Deferred income tax, net	25,955	(3,595)	(567)
Loss on disposal of property, plant and equipment	19,843	–	–
Changes in operating assets and liabilities:			
Prepayments and other current assets	(124,768)	(341,838)	(53,924)
Inventories	(330,253)	(353,235)	(55,721)
Operating lease right-of-use assets	(54,707)	(158,981)	(25,079)
Operating lease liabilities	65,087	153,866	24,272
Other non-current assets	(10,525)	(45,902)	(7,241)
Trade receivable	776	(19,942)	(3,146)
Deferred revenue	26,517	(161,419)	(25,463)
Trade and notes payable	1,066,210	1,737,393	274,067
Amounts due to related parties	(3,071)	(29,296)	(4,621)
Accruals and other current liabilities	62,942	318	50
Other non-current liabilities	69,225	337,522	53,242
Net cash provided by operating activities	**926,343**	**1,833,769**	**289,270**

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

	For the Three Months Ended March 31,		
	2021	2022	2022
			US$
	RMB	*RMB*	*Note 2(e)*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	(356,131)	(1,331,814)	(210,088)
Purchase of long-term investments	–	(241,000)	(38,017)
Placement of time deposits	(797,268)	–	–
Redemption of time deposits	129,643	–	–
Placement of short-term investments	(86,873,023)	(14,713,590)	(2,321,012)
Redemption of short-term investments	85,004,683	17,850,655	2,815,872
Cash paid related to acquisition of Chongqing Zhizao Automobile Co., Ltd. ("Chongqing Zhizao"), net of cash acquired	(300)	–	–
Net cash (used in)/provided by investing activities	**(2,892,396)**	**1,564,251**	**246,755**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	–	900,000	141,971
Proceeds from exercise of share options	–	2,991	472
Net cash provided by financing activities	**–**	**902,991**	**142,443**
Effects of exchange rate changes on cash and cash equivalents and restricted cash	(24,104)	(77,503)	(12,226)
Net (decrease)/increase in cash, cash equivalents and restricted cash	**(1,990,157)**	**4,223,508**	**666,242**
Cash, cash equivalents and restricted cash at beginning of the period	10,172,519	30,493,064	4,810,163
Cash, cash equivalents and restricted cash at end of the period	**8,182,362**	**34,716,572**	**5,476,405**

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

	For the Three Months Ended March 31,		
	2021	**2022**	**2022**
	RMB	*RMB*	*US$* *Note 2(e)*
Supplemental schedule of non-cash investing and financing activities			
Payable related to acquisition of Chongqing Zhizao	(79,252)	(2,000)	(315)
Payable related to purchase of property, plant and equipment	(154,602)	(475,421)	(74,996)
Notes receivable related to the secured borrowing *(Note 13)*	–	299,106	47,183

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

(All amounts in thousands, except for share and per share data)

1. ORGANIZATION AND NATURE OF OPERATIONS

(a) Principal activities

Li Auto Inc. ("Li Auto", or the "Company") was incorporated under the laws of the Cayman Islands in April 2017 as an exempted company with limited liability. The Company, through its consolidated subsidiaries and consolidated variable interest entities (the "VIEs") and VIEs' subsidiaries (collectively, the "Group"), is primarily engaged in the design, development, manufacturing, and sales of new energy vehicles in the People's Republic of China (the "PRC").

(b) History of the Group and basis of presentation for the Reorganization

Prior to the incorporation of the Company and starting in April 2015, the Group's business was carried out under Beijing CHJ Information Technology Co., Ltd. (or "Beijing CHJ") and its subsidiaries. Concurrently with the incorporation of the Company in April 2017, Beijing CHJ, through one of its wholly-owned subsidiaries, entered into a shareholding entrustment agreement with the management team (the legal owners of the Company at that time) to obtain full control over the Company (the "Cayman Shareholding Entrustment Agreement"). In the same year, the Company set up its subsidiaries Leading Ideal HK Limited ("Leading Ideal HK"), Beijing Co Wheels Technology Co., Ltd. ("Wheels Technology" or "WFOE"), and a consolidated VIE, Beijing Xindian Transport Information Technology Co., Ltd. ("Xindian Information"). The Company, together with its subsidiaries and VIE, were controlled and consolidated by Beijing CHJ prior to the reorganization.

The Group underwent a reorganization (the "2019 Reorganization") in July 2019. The major reorganization steps are described as follows:

- Beijing CHJ terminated the Cayman Shareholding Entrustment Agreement, and concurrently the WFOE entered into contractual agreements with Beijing CHJ and its legal shareholders so that Beijing CHJ became a consolidated VIE of the WFOE;

- the Company issued ordinary shares and Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 convertible redeemable preferred shares to shareholders of Beijing CHJ in exchange for respective equity interests that they held in Beijing CHJ immediately before the 2019 Reorganization.

All 2019 Reorganization related contracts were signed by all relevant parties on July 2, 2019, and all administrative procedures of the 2019 Reorganization, including but not limited to remitting share capital of Beijing CHJ overseas for reinjecting into the Company were completed by December 31, 2019.

As the shareholdings in the Company and Beijing CHJ were with a high degree of common ownership immediately before and after the 2019 Reorganization, even though no single investor controlled Beijing CHJ or Li Auto, the transaction of the 2019 Reorganization was determined to be a recapitalization with lack of economic substance, and was accounted for in a manner similar to a common control transaction. Consequently, the financial information of the Group is presented on a carryover basis for all periods presented. The number of outstanding shares in the unaudited condensed consolidated balance sheets, the unaudited condensed consolidated statements of changes in shareholders' equity, and per share information including the net loss per share have been presented retrospectively as of the beginning of the earliest period presented on the unaudited condensed consolidated financial statements to be comparable with the final number of shares issued in the 2019 Reorganization. Accordingly, the effect of the ordinary shares and the preferred shares issued by the Company pursuant to the 2019 Reorganization have been presented retrospectively as of the beginning of the earliest period presented in the unaudited condensed consolidated financial statement or the original issue date, whichever is later, as if such shares were issued by the Company when the Group issued such interests.

In preparation for the Listing on the main board of the Stock Exchange of Hong Kong Limited ("HKEx"), the Group underwent reorganization of its corporate structure (the "2021 Reorganization") in the second quarter of 2021. The major reorganization steps are described as follows:

- In accordance with the requirements under the Listing Decision LD43-3 of HKEx to the extent practicable, the Company underwent reorganization of the holding structure of its onshore subsidiaries and consolidated affiliated entities. The 2021 Reorganization mainly involved changing certain consolidated affiliated entities controlled through contractual arrangements to wholly owned or partly-owned subsidiaries of the Company, to the extent permitted under the relevant PRC laws and regulations. Please refer to Note 1 (b)(i) and (ii).

- In April, 2021, the certain new contractual arrangements were entered into to replace the original contractual arrangements in place before the completion of 2021 Reorganization.

The transactions of 2021 Reorganization was accounted for a common control transaction within the Group. The financial information of the Group at the consolidation level does not have a material impact accordingly.

For the three months ended March 31, 2022, Beijing CHJ transferred its equity interest of Chongqing Lixiang Automobile to Leading Ideal HK's subsidiary. Consequently, Chongqing Lixiang Automobile became a wholly owned subsidiary of the Company. The transaction was accounted for a common control transaction within the Group. The financial information of the Group at the consolidation level does not have a material impact accordingly.

The Group's unaudited condensed consolidated financial statements include the financial statements of the Company, its subsidiaries, consolidated VIEs and VIEs' subsidiaries.

As of March 31, 2022, the Company's principal subsidiaries, consolidated VIEs and VIEs' subsidiaries are as follows:

	Equity Interest Held	**Date of Incorporation or Date of Acquisition**	**Place of Incorporation**	**Principal Activities**	*Notes*
Subsidiaries					
Leading Ideal HK Limited ("Leading Ideal HK")	100%	May 15, 2017	Hong Kong, China	Investment holding	
Beijing Co Wheels Technology Co., Ltd. ("Wheels Technology")	100%	December 19, 2017	Beijing, PRC	Technology development and corporate management	
Beijing Leading Automobile Sales Co., Ltd. ("Beijing Leading")	100%	August 6, 2019	Beijing, PRC	Sales and after sales management	
Jiangsu Xindian Interactive Sales and Services Co., Ltd. ("Jiangsu XD")	100%	May 08, 2017	Changzhou, PRC	Sales and after sales management	*(i)*
Jiangsu CHJ Automobile Co., Ltd. ("Jiangsu CHJ")	100%	June 23, 2016	Changzhou, PRC	Purchase of manufacturing equipment	*(i)*
Lixiang Zhizao Automobile Sales & Services (Beijing) Co., Ltd	100%	July 13, 2018	Beijing, PRC	Sales and after sales management	*(i)*
Lixiang Zhixing Automobile Sales & Services (Shanghai) Co., Ltd	100%	April 12, 2019	Shanghai, PRC	Sales and after sales management	*(i)*
Lixiang Zhizao Automobile Sales & Services (Chengdu) Co., Ltd	100%	July 9, 2018	Chengdu, PRC	Sales and after sales management	*(i)*
Chongqing Lixiang Automobile Co., Ltd. ("Chongqing Lixiang Automobile")	100%	October 11, 2019	Chongqing, PRC	Manufacturing of automobile	*(ii)*

	Date of Incorporation	Place of Incorporation	Principal Activities	*Notes*
VIEs				
Beijing CHJ Information Technology Co., Ltd. ("Beijing CHJ")	April 10, 2015	Beijing, PRC	Technology development	
Beijing Xindian Transport Information Technology Co., Ltd. ("Xindian Information")	March 27, 2017	Beijing, PRC	Technology development	

Notes:

(i) All the subsidiaries were VIE's subsidiaries before the 2021 Reorganization.

(ii) Upon the completion of 2021 Reorganization, Beijing CHJ and Leading Ideal HK's subsidiary each held 50% of equity interest of Chongqing Lixiang Automobile which was previously a wholly owned subsidiary of Beijing CHJ. For the three months ended March 31, 2022, Beijing CHJ transferred its equity interest of Chongqing Lixiang Automobile to Leading Ideal HK's subsidiary. Consequently, Chongqing Lixiang Automobile became a wholly owned subsidiary of the Company.

(c) Impact of the COVID-19

Due to the COVID-19 pandemic and the related nationwide precautionary and control measures that were adopted in China starting in January 2020, the Company postponed the production in its Changzhou manufacturing facility after the Chinese New Year holiday in February 2020, and also experienced short term delays in the suppliers' delivery of certain raw materials needed for production. As a result of varying levels of travel and other restrictions for public health concerns in various regions of China, the Group also temporarily postponed the delivery of Li ONE to customers. Following this temporary closure in February 2020, the Group reopened the retail stores and delivery and servicing centers and have resumed vehicle delivery to customers. Subsequent to March 31, 2020, the Group continuously increased their production capacity and delivery to normal level as the Group had recovered from the adverse impact of COVID-19 across China until the third quarter of 2021.

Since October 2021, the supply of semiconductor chips used for automotive manufacturing has experienced a global shortage following the disruption to semiconductor manufacturers due to the COVID-19 pandemic and an increase in global demand for personal computers for work-from-home economies. For example, due to the COVID-19 pandemic in Malaysia, the production of chips dedicated for the Group's millimeter-wave radar supplier had been severely hampered, and the production and deliveries for the third quarter of 2021 had been adversely affected. Subsequent to December, 2021, the Group gradually resumed normal vehicle production by continuing to obtain the chips or other semiconductor components at a reasonable cost from multiple sources. The Group concluded that there would be no material impact on the Group's long-term forecast.

In late March and April 2022, the COVID-19 resurgence in the Yangtze Delta region of China continues to cause severe industry-wide disruptions in supply chain, logistics and production. The Group's Changzhou manufacturing base is located in the center of the Yangtze Delta region, which is home to over 80% of the Group's parts suppliers, especially in Shanghai and Kunshan. Certain suppliers in Shanghai and Kunshan temporarily terminate the production or delivery of their products completely, resulting in the Group unable to maintain adequate inventory for production demand. This had a material adverse impact on production in April 2022, resulting in delayed deliveries for customers. The Group has been working with vendors to restore production capacity and aimed to shorten the delivery waiting time for Li ONE customers. The Group is closely monitoring the situation and its impact to the Company's business and financial conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with US GAAP have been condensed or omitted consistent with Article 10 of Regulation S-X. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments as necessary for the fair statement of the Company's financial position as of December 31, 2021 and March 31, 2022, results of operations and cash flows for the three months ended March 31, 2021 and 2022. The consolidated balance sheet at December 31, 2021 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by US GAAP. The unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the unaudited condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal years. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements and related footnotes for the year ended December 31, 2021. The accounting policies applied are consistent with those of the audited consolidated financial statements for the preceding fiscal year. Interim results of operations are not necessarily indicative of the results expected for the full fiscal year or for any future period.

(b) Principles of consolidation

The unaudited condensed consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and VIEs' subsidiaries for which the Company is the ultimate primary beneficiary.

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.

All significant transactions and balances between the Company, its subsidiaries, VIEs and VIEs' subsidiaries have been eliminated upon consolidation.

(c) Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related disclosures of contingent assets and liabilities at the balance sheet date, and the reported revenue and expenses during the reported period in the unaudited condensed consolidated financial statements and accompanying notes.

Significant accounting estimates reflected in the Group's unaudited condensed consolidated financial statements mainly include, but are not limited to, standalone selling price of each distinct performance obligation in revenue recognition and determination of the amortization period of these obligations, the valuation of share-based compensation arrangements, fair value of investments and derivative instruments, fair value of warrant liabilities and derivative liabilities, useful lives of property, plant and equipment, useful lives of intangible assets, assessment for impairment of long-lived assets and intangible assets with indefinite lives, the provision for credit losses of financial assets, inventory valuation for excess and obsolete inventories, lower of cost and net realizable value of inventories, product warranties, determination of vendor rebates, assessment of variable lease payments, and valuation allowance for deferred tax assets. Actual results could differ from those estimates.

(d) Functional currency and foreign currency translation

The Group's reporting currency is the Renminbi ("RMB"). The functional currency of the Company and its subsidiary which is incorporated in Hong Kong is United States dollars ("US$"). The functional currencies of the other subsidiaries, the VIEs and VIEs' subsidiaries are their respective local currencies ("RMB"). The determination of the respective functional currency is based on the criteria set out by ASC 830, *Foreign Currency Matters*.

Transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the applicable exchange rates at the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are measured using the exchange rates at the dates of the initial transactions. Exchange gains or losses arising from foreign currency transactions are included in the unaudited condensed consolidated statements of comprehensive loss.

The financial statements of the Group's entities of which the functional currency is not RMB are translated from their respective functional currency into RMB. Assets and liabilities denominated in foreign currencies are translated into RMB at the exchange rates at the balance sheet date. Equity accounts other than earnings generated in current period are translated into RMB at the appropriate historical rates. Income and expense items are translated into RMB using the periodic average exchange rates. The resulting foreign currency translation adjustments are recorded in other comprehensive income/(loss) in the unaudited condensed consolidated statements of comprehensive loss, and the accumulated foreign currency translation adjustments are presented as a component of accumulated other comprehensive income/(loss) in the unaudited condensed consolidated statements of shareholders' equity. Total foreign currency translation adjustment income was RMB107,644 for the three months ended March 31, 2021 and the foreign currency translation adjustment loss was RMB85,116 for the three months ended March 31, 2022 respectively.

(e) Convenience translation

Translations of balances in the unaudited condensed consolidated balance sheets, unaudited condensed consolidated statements of comprehensive loss and unaudited condensed consolidated statements of cash flows from RMB into US$ as of and for the three months ended March 31, 2022 are solely for the convenience of the reader and were calculated at the rate of US$1.00 = RMB6.3393, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on March 31, 2022. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into US$ at that rate on March 31, 2022, or at any other rate.

(f) Cash, cash equivalents and restricted cash

Cash and cash equivalents represent cash on hand, time deposits and highly liquid investments placed with banks or other financial institutions, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less. As of December 31, 2021 and March 31, 2022, the Group had cash held in accounts managed by online payment platforms such as China Union Pay in connection with the collection of vehicle sales for a total amount of RMB33,540 and RMB27,141, respectively, which have been classified as cash and cash equivalents on the unaudited condensed consolidated financial statements.

Cash that is restricted as to withdrawal for use or pledged as security is reported separately on the face of the unaudited condensed consolidated balance sheets and is not included in the total cash and cash equivalents in the unaudited condensed consolidated statements of cash flows. The Group's restricted cash mainly represents (a) the secured deposits held in designated bank accounts for issuance of letter of credit, bank guarantee and bank acceptance bill; (b) the deposits held in designated bank accounts for security of the repayment of the notes payable (Note 14).

Cash, cash equivalents and restricted cash as reported in the unaudited condensed consolidated statements of cash flows are presented separately on our unaudited condensed consolidated balance sheets as follows:

	As of	
	December 31, 2021	**March 31, 2022**
Cash and cash equivalents	27,854,224	32,055,546
Restricted cash	2,638,840	2,661,026
Total cash, cash equivalents and restricted cash	**30,493,064**	**34,716,572**

(g) Time deposits and short-term investments

Time deposits are those balances placed with the banks with original maturities longer than three months but less than one year.

Short-term investments are investments in financial instruments with variable interest rates. These financial instruments have maturity dates within one year and are classified as short-term investments. The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Fair value is estimated based on quoted prices of similar financial products provided by financial institutions at the end of each period. Changes in the fair value are reflected in the unaudited condensed consolidated statements of comprehensive loss as "Interest income and investment income, net."

(h) Trade receivables and current expected credit losses

Trade receivable primarily include amounts of vehicle sales related to government subsidies to be collected from the government on behalf of customers. The Group provides an allowance against trade receivable based on the expected credit loss approach (see below) and writes off trade receivable when they are deemed uncollectible. No material allowance for doubtful accounts for trade receivable was recognized for the three months ended March 31, 2021 and 2022.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses*, which introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments, including, but not limited to, trade and other receivables and net investments in leases. The Group assessed that trade receivable, other current assets, and other non-current assets are within the scope of ASC 326. The Group has identified the relevant risk characteristics of trade receivables, other current assets, and other non-current assets which include size, type of the services or the products the Group provides, or a combination of these characteristics, the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses, etc. Other key factors that influence the expected credit loss analysis include industry-specific factors that could impact the credit quality of the Group's receivables. This is assessed at each quarter based on the Group's specific facts and circumstances. All forward looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Group's control. Considering the macroeconomic and market turmoil caused by COVID-19, the Group is continuously monitoring data and trends and took the latest available information into consideration.

The Group adopted ASC 326 and several associated ASUs on January 1, 2021 using a modified retrospective approach with a cumulative effect recorded as an increase of accumulated deficit in the amount of RMB1,955. As of January 1, 2021, upon the adoption, the expected credit loss provision for the current assets and non-current assets were RMB972 and RMB983, respectively. For the three months ended March 31, 2022, the Group reversed RMB724 in expected credit losses in selling, general and administrative expenses. As of March 31, 2022, the expected credit loss provision recorded in current assets and non-current assets were RMB2,376 and RMB3,316, respectively.

The Group typically does not carry significant trade receivable related to vehicle sales and related sales as customer payments are due prior to vehicle delivery, except for amounts of vehicle sales in relation to government subsidies to be collected from the government on behalf of customers. Other current assets and other non-current assets primarily consist of other receivables and deposits. The following table summarizes the activity in the allowance for credit losses related to trade receivable, other current assets and other non-current assets for the three months ended March 31, 2022:

	For the Three Months Ended March 31, 2022
Balance as of January 1, 2022	6,416
Reversal	(724)
Balance as of March 31, 2022	5,692

(i) Derivative instruments

Derivative instruments are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheets in either other current or non-current assets or other current liabilities or non-current liabilities depending upon maturity and commitment. Changes in the fair value of derivatives are either recognized periodically in the unaudited condensed consolidated statements of comprehensive loss or in other comprehensive income/(loss) depending on the use of the derivatives and whether they qualify for hedge accounting.

The Group selectively uses financial instruments to manage market risk associated with exposure to fluctuations in foreign currency rates with foreign exchange forwards and option contracts. These financial exposures are monitored and managed by the Group as an integral part of its risk management program. The Group does not engage in derivative instruments for speculative or trading purposes. The Group's derivative instruments are not qualified for hedge accounting, thus changes in fair value are recognized in "Interest income and investment income, net" in the unaudited condensed consolidated statements of comprehensive loss. The cash flows of derivative financial instruments are classified in the same category as the cash flows from the items subject to the economic hedging relationships. The estimated fair value of the derivatives is determined based on relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques.

Derivative instruments are presented as net if rights of setoff exist, with all of the following conditions met: (a) each of two parties owes the other determinable amounts; (b) the reporting party has the right to set off the amount owed with the amount owed by the other party; (c) the reporting party intends to set off; and (d) the right of setoff is enforceable at law.

The Group did not have any outstanding derivative account balances instruments as of March 31, 2022 due to related maturities prior to December 31, 2021. The Group recorded fair value loss of RMB22,922 and nil in Interest income and investment income, net on the unaudited condensed consolidated statement of comprehensive loss for the three months ended March 31, 2021 and 2022, respectively.

(j) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is calculated on the weighted average basis and includes all costs to acquire and other costs to bring the inventories to their present location and condition. The Group records inventory write-downs for excess or obsolete inventories based upon assumptions on current and future demand forecasts. If the inventory on hand is in excess of future demand forecast, the excess amounts are written off. The Group also reviews inventory to determine whether its carrying value exceeds the net amount realizable upon the ultimate sale of the inventory. 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. No inventory write downs were recognized for the three months ended March 31, 2021 and 2022.

(k) Product warranties

The Group provides product warranties on all new vehicles based on the contracts with its customers at the time of sale of vehicles. The Group accrues a warranty reserve for the vehicles sold by multiplying the expected unit costs for warranty services by the sales volume, which includes the best estimate of projected costs to repair or replace items under warranties. These estimates are primarily based on the estimates of the nature, frequency and average costs of future claims. These estimates are inherently uncertain given the Group's relatively short history of sales, and changes to the historical or projected warranty experience may cause material changes to the warranty reserve in the future. The portion of the warranty reserve expected to be incurred within the next 12 months is included within the accrued and other current liabilities while the remaining balance is included within other non-current liabilities in the unaudited condensed consolidated balance sheets. Warranty cost is recorded as a component of cost of sales in the unaudited condensed consolidated statements of comprehensive loss. The Group reevaluates the adequacy of the warranty accrual on a regular basis.

The Group recognizes the benefit from a recovery of the costs associated with the warranty when specifics of the recovery have been agreed with the Group's suppliers and the amount of the recovery is virtually certain.

The accrued warranty activity consists of the following:

	For the Three Months Ended	
	March 31, 2021	**March 31, 2022**
Accrued warranty at beginning of the period	233,366	842,345
Warranty cost incurred	(3,467)	(8,280)
Provision for warranty	87,789	167,587
Accrued warranty at end of the period	**317,688**	**1,001,652**
Including: Accrued warranty, current	72,229	151,491
Accrued warranty, non-current	245,459	850,161

(l) Revenue recognition

The Group launched the first volume manufactured extended-range electric vehicle, Li ONE, to the public in October 2018 and started making deliveries to customers in the fourth quarter of 2019. The Group released the 2021 Li ONE in May 2021, which is upgraded version of Li ONE and terminated the production of the first model Li ONE in May, 2021(Note 9). Revenues of the Group are primarily derived from sales of vehicle, along with multiple distinct performance obligations within each sale of vehicle, as well as the sales of Li Plus Membership.

The Group adopted ASC 606, *Revenue from Contracts with Customers*, on January 1, 2018 by applying the full retrospective method.

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenue to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, the Group presents the contract in the statement of financial position 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. 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.

Vehicle sales

The Group generates revenue from sales of vehicles, currently the Li ONE, together with a number of products and services. There are multiple distinct performance obligations explicitly stated in the sales contracts including sales of Li ONE, charging stalls, vehicle internet connection services, firmware over-the-air upgrades (or "FOTA upgrades") and initial owner extended lifetime warranty subject to certain conditions, which are accounted for in accordance with ASC 606. The standard warranty provided by the Group is accounted for in accordance with ASC 460, *Guarantees*, and the estimated costs are recorded as a liability when the Group transfers the control of Li ONE to a customer.

Customers only pay the amount after deducting the government subsidies to which they are entitled for the purchase of new energy vehicles, which is applied on their behalf and collected by the Group from the government according to the applicable government policy. The Group has concluded that government subsidies should be considered as a part of the transaction price it charges the customers for the new energy vehicles, as the subsidy is granted to the purchaser of the new energy vehicles and the purchaser remains liable for such amount in the event the subsidies were not received by the Group due to his fault such as refusal or delay of providing application information. Since July 2020, the Group was no longer eligible for the government subsidies as the Group's selling price of vehicles is higher than threshold in the circular issued by the certain PRC authorities.

The overall contract price is allocated to each distinct performance obligation based on the relative estimated standalone selling price in accordance with ASC 606. The revenue for sales of the Li ONE and charging stalls are recognized at a point in time when the control of the product is transferred to the customer. For the vehicle internet connection service and FOTA upgrades, the Group recognizes the revenue using a straight-line method over the service period. As for the initial owner extended lifetime warranty, given the limited operating history and lack of historical data, the Group recognizes the revenue over time based on a straight-line method over the extended warranty period initially, and will continue monitoring the cost pattern periodically and adjust the revenue recognition pattern to reflect the actual cost pattern as it becomes available.

As the contract price for the vehicle and all embedded products and services must be paid in advance, which means the payments are received prior to the transfer of goods or services by the Group, the Group records a contract liability (deferred revenue) for the allocated amount regarding those unperformed obligations.

Sales of Li Plus Membership

The Group also sells the Li Plus Membership to enrich the ownership experience of customers. Total Li Plus Membership fee is allocated to each performance obligation based on the relative estimated standalone selling price. And the revenue for each performance obligation is recognized either over the service period or at a point in time when the relevant goods or service is delivered or when the membership expired, whichever is earlier.

Customer loyalty points

Beginning in January 2020, the Group offers customer loyalty points, which can be used in the Group's online store to redeem the Group's merchandise or services. The Group determines the value of each customer loyalty point based on cost of the Group's merchandise or service that can be obtained through redemption of customer loyalty points.

The Group concludes the customer loyalty points offered to customers in connection with the purchase of the Li ONE is a material right and is considered as a separate performance obligation according to *ASC 606*, and should be taken into consideration when allocating the transaction price of the sales of vehicle. The amount allocated to the customer loyalty points as separate performance obligation is recorded as contract liability (deferred revenue) and revenue should be recognized when the customer loyalty points are used or expired.

Customers or users of the mobile application can also obtain customer loyalty points through other ways, such as referring new customers to purchase the vehicles via the mobile application. The Group offers these customer loyalty points to encourage user engagement and generate market awareness. As a result, the Group accounts for such points as selling and marketing expenses with a corresponding liability recorded under accruals and other current liabilities upon the points offering.

Sales of Automotive Regulatory Credits

Pursuant to the measurements and policies promulgated by China's Ministry of Industry and Information Technology ("MIIT"), each of the vehicle manufacturers or importers above a certain scale is able to earn Automotive Regulatory Credits by manufacturing or importing New Energy Vehicle ("NEV"). The Automotive Regulatory Credits are tradable and sold to other companies through a credit management system established by MIIT. The Company earns the tradable new energy vehicle credits from the production of the Company's electric vehicles. The Company sells these credits at agreed price to other regulated entities who can use the credits to comply with the regulatory requirements. The Company recognized revenue on the sale of Automotive Regulatory Credits at the time control of the Automotive Regulatory Credits were transferred to the purchasing party in September 2021 as MIIT has completed the review and approved the sale of Automotive Regulatory Credits, the related NEV Credits have been transferred to purchasing party. The full consideration for sale of Automotive Regulatory Credits was collected by the Company in the fourth quarter of 2021.

Practical expedients and exemptions

The Group elects to expense the costs to obtain a contract as incurred given the majority of the contract considerations for vehicle sales are allocated to the sales of Li ONE and recognized as revenue upon transfer of control of the vehicles, which is within one year after entering the sales contracts.

(m) Government grants

The Group's PRC based subsidiaries received government subsidies from certain local governments. The Group's government subsidies consist of specific subsidies and other subsidies. Specific subsidies are subsidies that the local government has provided for a specific purpose, such as research and development purpose, construction of production plants and facilities and capacity subsidies related to the Chongqing Manufacturing Base. Other subsidies are the subsidies that the local government has not specified its purpose for and are not tied to future trends or performance of the Group, receipt of such subsidy income is not contingent upon any further actions or performance of the Group and the amounts do not have to be refunded under any circumstances. The Group recorded specific purpose subsidies as a non-current liability if the amount is received in advance. For specific subsidies, upon government acceptance of the related project construction or asset acquisition, the specific purpose subsidies are recognized to reduce the cost of asset acquisition. Other subsidies are recognized as Others, net upon receipt as further performance by the Group is not required.

As of March 31, 2022, other non-current liabilities included RMB271,105 in deferred government grants relating to specific government subsidies for construction production plants and facilities and product development. These government grants are expected to be amortized using the straight-line method as a deduction of the depreciation expense of these assets over their useful lives upon construction and when placed in use.

(n) Fair value

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be either recorded or disclosed at fair value, the Group considers the principal or most advantageous market in which it would transact, and it also considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Observable, market-based inputs, other than quoted prices, in active markets for identical assets or liabilities.

Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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, such as interest rates and currency rates.

(o) Loss per share

Basic net loss per share is computed using the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net loss is not allocated to other participating securities if based on their contractual terms they are not obligated to share in the loss. Diluted net loss per share is computed using the weighted average number of ordinary shares and potential ordinary shares outstanding during the period. Potential ordinary shares include ordinary shares issuable upon the exercise of outstanding share options using the treasury stock method and ordinary shares issuable upon the conversion of convertible debt using the if-converted method. Potential ordinary shares are not included in the denominator of the diluted loss per share calculation when inclusion of such shares would be anti-dilutive.

(p) Segment reporting

ASC 280, *Segment Reporting*, establishes standards for companies to report in their financial statements information about operating segments, products, services, geographic areas, and major customers.

Based on the criteria established by ASC 280, the Group's chief operating decision maker ("CODM") has been identified as the Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole, and hence, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. As the Group's long-lived assets are substantially located in the PRC, no geographical segments are presented.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Recently adopted accounting pronouncements

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, to remove specific exceptions to the general principles in Topic 740 and to simplify accounting for income taxes. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Group adopted this ASU from January 1, 2021. The ASU did not have a material impact on the unaudited condensed consolidated financial statements.

In January 2020, the FASB issued Accounting Standards Update No. 2020-01, Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarified that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarified that for the purpose of applying paragraph 815-10-15-141(a) an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. The Company adopted ASU No. 2020-01 from January 1, 2021, which did not have a material impact on the Company's unaudited condensed consolidated financial statements.

4. CONCENTRATION AND RISKS

(a) Concentration of credit risk

Assets that potentially subject the Group to significant concentrations of credit risk primarily consist of cash and cash equivalents, restricted cash, time deposits and short-term investments. The maximum exposure of such assets to credit risk is their carrying amounts as of the balance sheet dates. As of December 31, 2021 and March 31, 2022, most of the Group's cash and cash equivalents, restricted cash and time deposits and short-term investments were held by major financial institutions located in the PRC and Hong Kong which management believes are of high credit quality. On May 1, 2015, China's new Deposit Insurance Regulation came into effect, pursuant to which banking financial institutions, such as commercial banks, established in the PRC are required to purchase deposit insurance for deposits in RMB and in foreign currency placed with them. This Deposit Insurance Regulation would not be effective in providing complete protection for the Group's accounts, as its aggregate deposits are much higher than the compensation limit. However, the Group believes that the risk of failure of any of these PRC banks is remote. The Group expects that there is no significant credit risk associated with cash and cash equivalents and short-term investments which are held by reputable financial institutions in the jurisdictions where the Company, its subsidiaries and VIEs are located. The Group believes that it is not exposed to unusual risks as these financial institutions have high credit quality. The Group has no significant concentrations of credit risk with respect to the assets mentioned above.

The Group relies on a limited number of third parties to provide payment processing services ("payment service providers") to collect amounts due from customers. Payment service providers are financial institutions, credit card companies and mobile payment platforms such as Alipay and WeChat Pay, which the Company believes are of high credit quality.

(b) Currency convertibility risk

The PRC government imposes controls on the convertibility of RMB into foreign currencies. The Group's cash and cash equivalents, restricted cash and time deposits and short-term investments denominated in RMB that are subject to such government controls amounted to RMB24,509,656 and RMB25,680,541 as of December 31, 2021 and March 31, 2022, respectively. The value of RMB is subject to changes in the central government policies and to international economic and political developments affecting supply and demand in the PRC foreign exchange trading system market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances in currencies other than RMB by the Group in the PRC must be processed through PBOC or other Chinese foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

(c) Foreign currency exchange rate risk

The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. The value of Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. The depreciation of the RMB against the US$ was approximately 0.4% for the three months ended March 31, 2021. The appreciation of the RMB against the US$ was approximately 0.4% for the three months ended March 31, 2022. 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.

5. ACQUISITION OF CHONGQING ZHIZAO

On December 28, 2018, the Company, through a wholly-owned subsidiary of Beijing CHJ, Chongqing Xinfan Machinery Co., Ltd. (the "Buyer" or "Xinfan"), entered into an acquisition agreement (the "Lifan Acquisition Agreement") with Lifan Industry (Group) Co., Ltd. ("Lifan Industry" or the "Seller") and its two wholly-owned subsidiaries Chongqing Zhizao (the "Target") and Chongqing Lifan Passenger Vehicle Co., Ltd. ("Lifan Passenger Vehicle" or the "Divestiture Recipient"), to acquire an 100% equity interest in Chongqing Zhizao (the "Acquisition"). Chongqing Zhizao was formerly known as Chongqing Lifan Automobile Co., Ltd.

Prior to the completion of the Acquisition, Chongqing Zhizao transferred most of its assets and liabilities and the related rights and obligations to Lifan Passenger Vehicle in November 2018 (the "Divestiture"). After the Divestiture, Chongqing Zhizao still retained its Automotive Manufacturing Permission, working capital and certain lease contracts, and other financial assets or liabilities (hereinafter referred to as "Retained Assets and Liabilities").

Key operating assets including plants, equipment, vehicle design and development technologies and raw materials had been transferred out from Chongqing Zhizao to Lifan Industry or Lifan Passenger Vehicle prior to the Acquisition. All employee contracts, operational systems and processes have also been transferred to Lifan Passenger Vehicle. No system, standard, protocol, convention, or rule that can create or has the ability to contribute to the creation of outputs were obtained by Xinfan. This Acquisition is determined to be an asset acquisition as no sufficient inputs and processes were acquired to produce outputs.

The Acquisition was completed on December 29, 2018 (the "Acquisition Date") when the legal procedures were completed. Total consideration for the Acquisition was RMB650,000 in cash.

On December 19, 2019, Xinfan entered into a share transfer agreement (the "Lifan Disposal Agreement") to dispose of its 100% equity interest in Chongqing Zhizao, with cash consideration of RMB0.001. The Retained Assets and Liabilities of Chongqing Zhizao not related to the manufacturing of Li ONE were transferred out to Lifan Industry and Lifan Passenger Vehicle upon the completion of the disposal of Chongqing Zhizao. A disposal loss of RMB4,503 was recognized on December 26, 2019, the disposal date of the transaction.

6. TRADE RECEIVABLE

An aging analysis of the trade receivable as of December 31, 2021 and March 31, 2022, based on the invoice date and net of provisions, is as follows:

	As of December 31, 2021	**As of March 31, 2022**
Within 3 months	16,462	35,983
Between 3 months and 6 months	890	1,643
Between 6 months and 1 year	–	–
More than 1 year	103,189	103,121
Total	**120,541**	**140,747**

7. INVENTORIES

Inventories consist of the following:

	As of December 31, 2021	**As of March 31, 2022**
Raw materials, work in process and supplies	1,468,801	1,815,228
Finished products	149,089	101,334
Total	**1,617,890**	**1,916,562**

Raw materials, work in process and supplies as of December 31, 2021 and March 31, 2022 primarily consist of materials for volume production which will be transferred into production cost when incurred as well as spare parts used for after sales services.

Finished products included vehicles ready for transit at production plants, vehicles in transit to fulfil customers' orders, new vehicles available for immediate sales at the Group's sales and servicing center locations.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets consist of the following:

	As of December 31, 2021	March 31, 2022
Prepayments to vendors	218,660	347,350
Note receivable *(Note 13)*	–	299,106
Deductible VAT input	118,177	274,419
Prepaid rental and deposits	48,929	109,456
Receivables related to rebate	28,491	–
Others	68,615	63,495
Less:Allowance for Credit Losses	(2,192)	(2,174)
Total	**480,680**	**1,091,652**

9. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment and related accumulated depreciation were as follows:

	As of December 31, 2021	March 31, 2022
Construction in process(i)	1,942,953	2,553,852
Mold and tooling	1,098,392	1,111,196
Production facilities	804,281	808,761
Leasehold improvements	660,902	747,496
Buildings	409,123	409,123
Equipment	266,745	318,666
Buildings improvements	297,163	313,384
Motor vehicles	59,702	72,693
Total	**5,539,261**	**6,335,171**
Less: Accumulated depreciation	(983,222)	(1,179,029)
Less: Accumulated impairment loss(ii)	(57,770)	(57,770)
Total property, plant and equipment, net	**4,498,269**	**5,098,372**

The Group recorded depreciation expense of RMB94,778 and RMB197,213 for the three months ended March 31, 2021 and 2022 respectively.

(i) Construction in process is primarily comprised of production facilities, equipment and mold and tooling related to manufacturing of the extended-range electric SUV vehicles and BEV models and a portion of Changzhou Manufacturing Base construction.

In July 2021, the Group signed a memorandum and a series of agreements (collectively "Beijing Manufacturing Base Agreements") for collaboration on a construction and expansion project of an automobile manufacturing plant, for the Group's specific use, in Shunyi District, Beijing, with an enterprise affiliated with the Beijing local government ("the Developer Enterprise"). Beginning in May, 2022, an agreement will become effective whereby the Group will lease the plant facility from the Developer Enterprise (responsible for the construction of the plant). The Group has agreed to acquire the plant in September 2028. In October 2021, construction commenced on the Beijing Manufacturing Base, which is scheduled to be operational in 2023. As of March 31, 2022, RMB153,553 of contruction in process and RMB6,764 of other non-current assets, and along with RMB93,701 of other non-current liabilities were recognized in the unaudited condensed consolidated balance sheet.

(ii) The Group launched 2021 Li ONE in May 2021, consequently, the production volume of the first model Li ONE is expected to gradually decrease in line with sales volume. As of December 31, 2021, the Group recorded an impairment loss on the production facilities and mold and tooling in connection with the production of the first model Li ONE accordingly as the carrying value of these assets are not expected to be recovered in the foreseeable future. No impairment loss was recognized for property, plant and equipment for the three months ended March 31, 2021 and 2022.

10. INTANGIBLE ASSETS, NET

Intangible assets and related accumulated amortization were as follows:

	As of	
	December 31, 2021	**March 31, 2022**
Automotive Manufacturing Permission *(Note 5)*	647,174	647,174
Indefinite-lived intangible assets	**647,174**	**647,174**
Software	137,576	156,112
Patents	694	694
Definite-lived intangible assets	**138,270**	**156,806**
Less: Accumulated amortization		
Software	(33,290)	(37,822)
Patents	(694)	(694)
Accumulated amortization	(33,984)	(38,516)
Definite-lived intangible assets, net	**104,286**	**118,290**
Total intangible assets, net	**751,460**	**765,464**

The Group recorded amortization expense of RMB2,498 and RMB4,532 for the three months ended March 31, 2021 and 2022, respectively.

As of March 31, 2022, amortization expenses related to intangible assets for future periods are estimated to be as follows:

	As of March 31, 2022
Year ending March 31, 2023	18,231
Year ending March 31, 2024	15,088
Year ending March 31, 2025	12,564
Year ending March 31, 2026	11,554
Thereafter	60,853
Total	**118,290**

11. LEASES

Acquisition of Changzhou Manufacturing Base Phase I and Phase II and termination of lease agreements

In November 2021, Jiangsu CHJ, as a subsidiary of the Group, entered into an equity transfer agreement to acquire an 100% equity interest in Changzhou Chehejin which owns the legal title of Changzhou Manufacturing Base Phase I and Phase II Land use rights and Plants. According to the equity transfer agreement, the total consideration for this transaction was RMB567,118 in cash, of which RMB537,009 was paid as of March 31, 2022. Upon the completion of the transaction, the legal titles of Changzhou Manufacturing Base Phase I and II, including Land use rights and Plants, were transferred to the Group, and the original lease agreements were terminated accordingly.

There were no inputs and substantive processes acquired to significantly contribute to the ability to create outputs (no workforce or revenue supporting processes were acquired in connection with this transaction). Accordingly, this transaction was accounted for as an asset acquisition.

According to *ASC 842-20-40-2*, the termination of a lease that results from the purchase of an underlying asset by the lessee is not the type of termination of a lease contemplated but, rather, is an integral part of the purchase of the underlying asset. Upon the Group's purchase of the Changzhou Manufacturing Base Phase I and II Land use right and Plants, the difference between the total consideration of this transaction and the carrying amount of the lease liabilities arising from Phase I assets and short-term borrowings arising from Phase II assets immediately prior to the transaction was recorded as an adjustment of the carrying amount of the asset, with an amount of RMB47,876 on the consolidated balance sheet as of December 31, 2021.

Acquisition of land use rights in Changzhou and Chongqing

For the three months ended March 31, 2022, the Group acquired land use rights to construct production plants and facilities for manufacturing vehicles of the Group in Changzhou and Chongqing province, the PRC. The total consideration of land use rights was RMB683,433.

Land use rights are classified as an operating lease and are recorded at cost, as a right of use asset less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives which are 50 years that represent the terms of land use rights certificate. The Group recorded amortization of these land use rights of RMB2,278 for the three months ended March 31, 2022.

12. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	As of	
	December 31, 2021	**March 31, 2022**
Prepayments for purchase of property, plant and equipment[(i)]	1,051,415	1,320,574
Long-term deposits	653,030	798,619
Deductible VAT input, non-current	263,390	223,702
Others	16,998	36,535
Less: Allowance for credit losses	(3,757)	(3,316)
Total	**1,981,076**	**2,376,114**

(i) Prepayments for purchase of property, plants and equipment primarily consists of production facilities, leasehold improvements, equipment and mold and tooling related to manufacturing of the extended-range electric SUV vehicles and BEV models and a portion of Beijing and Changzhou Manufacturing Bases construction.

13. SHORT-TERM BORROWINGS AND LONG-TERM BORROWINGS

Borrowings consist of the following:

	Maturity Date	Principal Amount	Interest Rate Per Annum	As of December 31, 2021	March 31, 2022
Convertible debt(1)	May 1, 2028	US$862,500	0.2500 %	5,397,941	5,378,567
Secured bank loan(2)	February 15, 2027	RMB900,000	5 years LPR -0.4000%	–	900,000
Secured bank loan(3)	September 28, 2029	RMB600,000	4.8000%	600,000	600,000
Secured borrowing(4)	March 25, 2025	RMB299,106	4.0000%	–	299,106
Total borrowings				**5,997,941**	**7,177,673**

Classified as:

	As of December 31, 2021	March 31, 2022
– Short-term borrowings	37,042	136,744
– Long-term borrowings	5,960,899	7,040,929
Total	**5,997,941**	**7,177,673**

(1) In April 2021, the Company issued and sold convertible debt in an aggregate principal of US$862,500 through a private placement (Note 16). The convertible debt will mature in 2028, bearing the interest at a rate of 0.25% per annum. The related interest is payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2021. The net proceeds from this offering were approximately US$844,876, equivalent to RMB5,533,238.

The convertible debt may be converted, at an initial conversion rate of 35.2818 ADS per US$1,000 principal amount (which represents an initial conversion price of approximately US$28.34 per ADS) at each holder's option at any time on or after November 1, 2027, until the close of business on the second scheduled trading day immediately preceding the maturity date of May 1, 2028. Upon conversion, the Company will pay or deliver to such converting holders, as the case may be, either cash, ADSs, or a combination of cash and ADSs, at its election.

Holders of the convertible debt have the rights to require the Company to repurchase all or a portion for their convertible debt on May 1, 2024 and May 1, 2026 or in the event of certain fundamental changes, at a repurchase price equal to 100% of the principal amount of the convertible debt to be repurchased, plus accrued and unpaid interest.

The Company accounted for the convertible debt as a single instrument measured at its amortized cost as long-term borrowings on the unaudited condensed consolidated balance sheets. The issuance costs were recorded as an adjustment to the long-term borrowings and are amortized as interest expense using the effective interest method over the contractual life to the maturity date (i.e., May 1, 2028). For the three months ended March 31, 2022, the convertible debt related interest expense was US$1,157 (RMB7,334). As of March 31, 2022, the principal amount of the convertible debt was RMB5,475,323 and the unamortized debt issuance cost was RMB96,756, respectively.

(2) In February, 2022, Chongqing Lixiang entered into a 5-year pledged loan agreement with a commercial bank in the PRC, with total principal of RMB900,000. This loan was pledged by certain manufacturing facilities of the Group. As of March 31, 2022, the interest rate was 4.2% per annum and all principal amount was presented as a long-term borrowing.

(3) In September 2021, the Group entered into a loan facility agreement with a commercial bank in the PRC, which allows the Group to draw borrowings up to RMB1,009,900 as of periods ended September 28, 2029. The borrowings bear annual interest rate of 4.8% and were guaranteed by certain production facilities and toolings of the Group. As of March 31, 2022, the outstanding loan principal was RMB600,000, of which RMB37,042 will be due within 12 months after March 31, 2022 and the remaining RMB562,958 will be due in April 1, 2023 and thereafter. The unused credit limits under these facilities was RMB409,900 as of March 31, 2022.

(4) In February 2022, the Group entered into an asset transfer agreement with a finance lease company to sell certain production facilities and equipment in Changzhou Production Base with a total consideration of RMB299,106. Immediately after the transfer, the Group entered into a lease agreement to lease back the production facilities and equipment for the period starting from March 25, 2022 to March 25, 2025, and further obtained an option to repurchase the production facilities and equipment with the notional amount of RMB0.001 on March 25, 2025.

As the repurchase option is not at the fair value of the assets when the option is exercised, and the assets repurchased are designed for the use of the Group, and no alternative assets that are substantially the same as the transferred assets are readily available in the market, as a result, the transaction did not qualify for the sales accounting, and was accounted for as a financing transaction and the Group recorded the sales proceed as a borrowing in the unaudited condensed consolidated balance sheets. The amount of RMB99,702 was due within 12 months after March 31, 2022 and was presented as a short-term borrowing and the remaining RMB199,404 was presented as a long-term borrowing.

Considering the above arrangement, The Group received RMB299,106 in acceptance bills issued by the finance lease Company through its contracted financial institution that entitles the Group to receive the full face amount at maturity, which generally ranges within one year from the date of issuance. Accordingly, the Group recognized the notes receivable in Prepayments and Other Current Assets as of March 31, 2022 (Note 8).

As of December 31, 2021 and March 31, 2022, the secured bank loans and borrowing were classified as follows:

	As of	
	December 31, 2021	**March 31, 2022**
Secured bank loans and borrowing		
– Current portion	37,042	136,744
– Non-current portion	562,958	1,662,362
Total	**600,000**	**1,799,106**

14. TRADE AND NOTES PAYABLE

Trade and notes payable consist of the following:

	As of December 31, 2021	March 31, 2022
Trade payable for raw materials	7,089,370	6,973,440
Notes payable	2,286,680	4,140,003
Total	**9,376,050**	**11,113,443**

An aging analysis of the trade and notes payable as at December 31, 2021 and March 31, 2022, based on the invoice date, is as follows:

	As of December 31, 2021	March 31, 2022
Within 3 months	7,539,833	10,181,861
Between 3 months and 6 months	1,639,286	867,620
Between 6 months and 1 year	161,913	27,049
More than 1 year	35,018	36,913
Total	**9,376,050**	**11,113,443**

15. ACCRUALS AND OTHER CURRENT LIABILITIES

Accruals and other current liabilities consist of the following:

	As of December 31, 2021	March 31, 2022
Payables for purchase of property, plant and equipment	456,395	475,421
Salaries and benefits payable	417,449	308,103
Tax payable	277,233	273,305
Payables for research and development expenses	94,517	155,531
Payables for logistics expenses	143,632	140,427
Payables for marketing and promotional expenses	96,945	129,825
Accrued warranty	154,276	151,491
Deposits from vendors	27,716	22,716
Advance from customers	10,262	14,591
Other payables	200,943	199,114
Total	**1,879,368**	**1,870,524**

16. CONVERTIBLE DEBTS

The Group recognized Convertible Senior Notes issued in 2021 in the short-term borrowings and long-term borrowings on the unaudited condensed consolidated balance sheets as of December 31, 2021 and March 31, 2022.

Convertible Senior Notes ("2028 Notes")

In April 2021, the Company issued and sold convertible debt in an aggregate principal of US$862,500, through a private placement. The convertible debt will mature in 2028, bearing the interest at a rate of 0.25% per annum. The related interest is payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2021. The net proceeds from this offering were approximately US$844,876, equivalent to RMB5,533,238.

The convertible debt may be converted, at an initial conversion rate of 35.2818 ADSs per US$1,000 principal amount (which represents an initial conversion price of approximately US$28.34 per ADS) at each holder's option at any time on or after November 1, 2027, until the close of business on the second scheduled trading day immediately preceding the maturity date of May 1, 2028. Upon conversion, the Company will pay or deliver to such converting holders, as the case may be, either cash, ADSs, or a combination of cash and ADSs, at its election.

The initial conversion price of US$28.34 per ADS, or US$14.17 per Class A Ordinary Share (the latter represents the effective cost per Class A Ordinary Share), represents a discount of approximately 26.56% to the maximum Public Offer Price of HK$150.00 per Class A Ordinary Share. The initial conversion rate may be adjusted in certain circumstances, including but not limited to when our Company effects a share split or share combination. As of the Latest Practicable Date, no adjustment had been made to the initial conversion rate.

Holders of the convertible debt have the rights to require the Company to repurchase all or partial for their convertible debt on May 1, 2024 and May 1, 2026 or in the event of certain fundamental changes, at a repurchase price equal to 100% of the principal amount of the convertible debt to be repurchased, plus accrued and unpaid interest.

The Company assessed the convertible debt under ASC 815 and concluded that:

(i) Since the conversion option is considered indexed to the Company's own stock and classified in shareholders' (deficit)/equity, bifurcation of conversion option from the convertible debt is not required as the scope exception prescribed in ASC 815-10-15-74 is met;

(ii) The repurchase option is considered clearly and closely related to its debt host and does not meet the requirement for bifurcation.

In August 2020, the FASB issued ASU 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) (the "ASU 2020-06"). The Company determined to early adopt ASU 2020-06 from January 1, 2021. Since the ASU 2020-06 amended the guidance on convertible debt instruments by removing accounting models for the instruments with beneficial conversion features and cash conversion features. Accordingly, there is no need to consider beneficial conversion feature or cash conversion features for the convertible debt.

Therefore, the Company accounted for the convertible debt as a single instrument measured at its amortized cost as a long-term borrowing on the unaudited condensed consolidated balance sheets (Note 13). The related issuance costs were recorded as an adjustment to the long-term borrowing and are amortized as interest expense using the effective interest method over the contractual life to the maturity date (i.e., May 1, 2028). For the three months ended March 31, 2022, the convertible debt related interest expense was US$1,157 (RMB7,334). As of March 31, 2022, the principal amount of the convertible debt was RMB5,475,323 and the unamortized debt issuance cost was RMB96,756, respectively.

17. REVENUE DISAGGREGATION

Revenues by source consist of the following:

	For the Three Months Ended March 31,	
	2021	2022
Vehicle sales	3,463,673	9,308,609
Other sales and services	111,528	253,427
Total	**3,575,201**	**9,562,036**

Revenue by timing of recognition is analyzed as follows:

	For the Three Months Ended March 31,	
	2021	2022
Revenue recognized at a point in time	3,559,806	9,529,061
Including: Vehicle sales	3,463,673	9,308,609
Other sales and services	96,133	220,452
Revenue recognized over time	15,395	32,975
Total	**3,575,201**	**9,562,036**

Revenues arising from vehicle sales are recognized at a point in time when the control of the products are transferred to the users. Revenues from other sales and services which are recognized at a point in time include (i) sales and installment of charging piles, (ii) sales of goods from online store, (iii) certain services under the Li Plus Membership, and (iv) sales of Automotive Regulatory Credits. In such instances, revenue is recognized at a point in time when the control of the products and services are transferred to the users.

Certain revenue arising from other sales and services is recognized over time, including vehicle internet connection services, FOTA upgrades and certain services under the Li Plus Membership.

18. DEFERRED REVENUE

The following table shows a reconciliation in the current reporting period related to carried-forward deferred revenue.

	For the Three Months Ended March 31,	
	2021	2022
Deferred revenue – at beginning of the period	407,168	694,745
Additions	3,638,853	9,632,426
Recognition	(3,612,336)	(9,531,845)
Deferred revenue – at end of the period	**433,685**	**795,326**
Including: Deferred revenue, current	235,131	321,423
Deferred revenue, non-current	198,554	473,903

Deferred revenue represents contract liabilities allocated to the performance obligations that are unsatisfied, or partially satisfied which primarily resulted from undelivered vehicles, uninstalled charging piles and other performance obligations identified in the vehicle sales contracts.

The Group expects that RMB321,423 of the transaction price allocated to unsatisfied performance obligation as of March 31, 2022 will be recognized as revenue during the period from April 1, 2022 to March 31, 2023. The remaining RMB473,903 will be recognized in April 1, 2023 and thereafter.

19. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses consist of the following:

	For the Three Months Ended March 31, 2021	2022
Employee compensation	319,271	894,325
Design and development expenses	166,877	394,279
Depreciation and amortization expenses	12,221	17,792
Rental and related expenses	9,614	24,664
Travel expenses	3,088	16,120
Others	3,429	26,782
Total	**514,500**	**1,373,962**

20. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses consist of the following:

	For the Three Months Ended March 31, 2021	2022
Employee compensation	216,592	632,739
Marketing and promotional expenses	161,161	193,904
Rental and related expenses	53,371	133,734
Depreciation and amortization expenses	13,095	41,674
Travel expenses	6,650	22,950
Expected credit losses	102	(724)
Others	58,953	178,690
Total	**509,924**	**1,202,967**

21. ORDINARY SHARES

In April 2017, the Company was incorporated as a limited liability company in the Cayman Islands. In July 2019, the Company became the holding company of the Group pursuant to the Reorganization described in Note 1. In connection with the Reorganization and issuance of Series C convertible redeemable preferred shares ("Series C Preferred Shares"), 3,830,157,186 authorized shares of the Company were designated as Class A Ordinary Shares, and 240,000,000 authorized shares were designated as Class B ordinary shares. Each Class A Ordinary Share is entitled to one vote, and is not convertible into Class B Ordinary Shares under any circumstances. Each Class B Ordinary Share is entitled to ten votes, subject to certain conditions, and is convertible into one Class A Ordinary Share at any time by the holder thereof. Upon the Reorganization, the Company issued ordinary shares and Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 convertible redeemable preferred shares (the "Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares") to shareholders of Beijing CHJ in exchange for respective equity interests that they held in Beijing CHJ immediately before the Reorganization. Series Pre-A, A-1, A-2, A-3, B-1, B-2 and B-3 Preferred Shares would be converted into Class A Ordinary Shares based on the then-effective conversion price.

On July 4, 2016, Beijing CHJ issued Series Pre-A shares ("Series Pre-A Ordinary Shares") with cash consideration of RMB100,000. Series Pre-A Ordinary Shares were classified as equity as they were not redeemable. In July 2017, upon Series A-2 financing, certain rights were granted to holders of Series Pre-A Ordinary Shares, including contingent redemption rights. Series Pre-A Ordinary Shares were effectively re-designated to Series Pre-A Preferred Shares. Such re-designation was accounted for as a repurchase and cancellation of Series Pre-A Ordinary Shares and a separate issuance of Series Pre-A Preferred Shares. Accordingly, the excess of fair value of the Series Pre-A Preferred Shares over the fair value of the Series Pre-A Ordinary Shares repurchased from employee shareholders was recorded as an employee compensation. While for other non-employee Series Pre-A shareholders, such difference was recognized as a deemed dividend given to these shareholders. The excess of the fair value of all Series Pre-A Ordinary Shares over the carrying value of these shares was accounted for as a retirement of the Series Pre-A Ordinary Shares. The Company elected to charge the excess entirely to accumulated deficits.

In August 2020, the Company completed its US IPO and 190,000,000 Class A Ordinary Shares were issued with proceeds of US$1,042,137, net of underwriter commissions and relevant offering expenses. Concurrently with completion of the IPO, 66,086,955 Class A Ordinary Shares were issued for a consideration of US$380,000. On August 7, 2020, the Company issued an additional 28,500,000 Class A Ordinary Shares upon the exercise of underwriters' over-allotment option for a consideration of US$157,320.

All of the Preferred Shares (other than those beneficially owned by Mr. Li Xiang, the founder and the CEO of the Company) were automatically converted to 1,045,789,275 Class A Ordinary Shares immediately upon the completion of the IPO. Concurrently, all Preferred Shares beneficially owned by Mr. Li Xiang were automatically converted to 115,812,080 Class B Ordinary Shares.

In December 2020, the Company completed a follow-on offering of 108,100,000 Class A Ordinary Shares, which included 14,100,000 Class A Ordinary Shares issued in connection with the underwriters' full exercise of their over-allotment option.

In February 2021, the Company issued 34,000,000 Class A Ordinary Shares as treasury shares for future exercise of share options.

In May 2021, the Company issued 108,557,400 Class B Ordinary Shares as treasury shares to Mr. Li Xiang, the Company's founder and chief executive officer, pursuant to the Company's 2021 Share Incentive Plan.

In August 2021, the Company completed its HK IPO and 100,000,000 Class A Ordinary Shares were issued with proceeds of HK$11,633,130, net of underwriter commissions and relevant offering expenses. In September 2021, the Company issued an additional 13,869,700 Class A Ordinary Shares upon the exercise of underwriters' over-allotment option for a consideration of HK$1,634,462.

As of March 31, 2022, 7,178,448 share options that fulfilled the vesting conditions were exercised.

As of December 31, 2021 and March 31, 2022, the Company had issued and outstanding ordinary shares of 1,929,562,426 and 1,930,336,458, respectively.

22. LOSS PER SHARE

Basic loss per share and diluted loss per share have been calculated in accordance with ASC 260 for the three months ended March 31, 2021 and 2022 as follows:

	For the Three Months Ended March 31,	
	2021	**2022**
Numerator:		
Net loss	**(359,967)**	**(10,866)**
Net loss attributable to ordinary shareholders of Li Auto Inc.	**(359,967)**	**(10,866)**
Denominator:		
Weighted average ordinary shares outstanding – basic and diluted	1,809,393,256	1,929,740,892
Basic and diluted net loss per share attributable to ordinary shareholders of Li Auto Inc.	**(0.20)**	**(0.01)**

For the three months ended March 31, 2021 and 2022, the Company had ordinary equivalent shares, including options granted and convertible debt issued in April 2021 (Note 16). As the Group incurred a loss for each of the periods ended March 31, 2021 and 2022, these ordinary equivalent shares were determined to be anti-dilutive and excluded from the calculation of diluted loss per share of the Company. The weighted average numbers of options granted and convertible debt excluded from the calculation of diluted loss per share of the Company were 56,789,630 and nil for the three months ended March 31, 2021 and 80,016,045 and 60,861,105 for the three months ended March 31, 2022, respectively.

23. SHARE-BASED COMPENSATION

Compensation expense recognized for share-based awards granted by the Company were as follows:

	For the Three Months Ended March 31,	
	2021	**2022**
Cost of sales	6,209	10,665
Research and development expenses	116,609	324,532
Selling, general and administrative expenses	60,110	152,754
Total	**182,928**	**487,951**

(a) 2019 and 2020 Share Incentive Plan

In July 2019, the Group adopted the 2019 Share Incentive Plan (the "2019 Plan"), which allows the Company to grant options of the Group to its employees, directors and consultants. As of March 31, 2022, the maximum number of Class A ordinary shares that may be issued under the 2019 Plan is 141,083,452.

The Group began to grant share options to employees from 2015. In conjunction with the Company's Reorganization in July 2019, the Group transferred share options from Beijing CHJ to the Company according to the 2019 Plan. The share options of the Group under the 2019 Plan have a contractual term of ten years from the grant date. The options granted have both service and performance condition. The options are generally scheduled to be vested over five years, one-fifth of the awards shall be vested upon the end of the calendar year in which the awards were granted. Meanwhile, the options granted are only exercisable upon the occurrence of an IPO by the Group.

These awards have a service condition and a performance condition related to an IPO. For share options granted with performance condition, the share-based compensation expenses are recorded when the performance condition is considered probable. As a result, the cumulative share-based compensation expenses for these options that have satisfied the service condition were recorded upon the completion of the US IPO in the third quarter of 2020. The Group recognized the share options of the Company granted to the employees using graded-vesting method over the vesting term of the awards, net of estimated forfeitures.

In July 2020, the Group adopted the 2020 Share Incentive Plan (the "2020 Plan"), which allows the Company to grant options and RSUs of the Group to its employees, directors and consultants. As of March 31, 2022, the maximum number of Class A ordinary shares that may be issued under the 2020 Plan is 165,696,625. The Group began to grant share options and RSUs from 2021 under 2020 Plan. The contractual term is ten years from the grant date and the options and RSUs granted only have service condition. The options and RSUs are generally scheduled to be vested over five years, one-fifth of the awards shall be vested upon the end of the calendar year in which the awards were granted.

The following table summarizes activities of the Company's share options and RSUs under the 2019 Plan and 2020 Plan for the three months ended March 31, 2021 and 2022:

	Number of Options and Shares	**Weighted Average Exercise Price** *US$*	**Weighted Average Remaining Contractual Life** *In Years*	**Aggregate Intrinsic Value** *US$*
Outstanding as of December 31, 2020	56,914,000	0.10	5.95	814,724
Granted	19,134,700	0.10		
Exercised	(633,012)	0.10		
Forfeited	(771,000)	0.10		
Outstanding as of March 31, 2021	74,644,688	0.10	6.70	925,594
Outstanding as of December 31, 2021	83,399,870	0.10	7.66	1,330,228
Granted	22,210,200	0.10		
Exercised	(774,032)	0.10		
Forfeited	(1,329,800)	0.10		
Outstanding as of March 31, 2022	103,506,238	0.10	8.03	1,325,397
Vested and expected to vest as of March 31, 2021	71,350,787	0.10	6.60	884,750
Exercisable as of March 31, 2021	43,306,988	0.10	5.17	537,007
Vested and expected to vest as of March 31, 2022	98,848,371	0.10	7.02	1,265,753
Exercisable as of March 31, 2022	46,433,452	0.10	4.65	594,580

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the estimated fair value of the underlying stock at each reporting date.

The weighted-average grant date fair value for options and RSUs granted under the Company's 2019 Plan and 2020 Plan for the three months ended March 31, 2021 and 2022 was US$14.41 and US$16.05, respectively, computed using the binomial option pricing model.

The fair value of each option granted under the Company's 2019 Plan and 2020 Plan for the three months ended March 31, 2021 was estimated on the date of each grant using the binomial option pricing model with the assumptions (or ranges thereof) in the following table:

	For the Three Months Ended March 31, 2021
Exercise price (US$)	0.10
Fair value of the ordinary shares on the date of option grant (US$)	14.42
Risk-free interest rate	0.93%
Expected term (in years)	10.00
Expected dividend yield	0%
Expected volatility	47%

The risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the option valuation date. The expected volatility at the grant date and each option valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the options. The Group has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the options.

As of March 31, 2022, there were US$447,124 of unrecognized compensation expenses related to the share options and RSUs granted to the Group's employees, which are expected to be recognized over a weighted-average period of 4.41 years and may be adjusted for future changes in forfeitures.

(b) 2021 Share Incentive Plan

In March 2021, the Group adopted the 2021 Share Incentive Plan (the "2021 Plan"), which granted options to purchase 108,557,400 Class B ordinary shares to Mr. Li Xiang, the Company's founder and chief executive officer. The exercise price of the options is US$14.63 per share, or US$29.26 per ADS. The date of expiration for this grant is March 8, 2031. The granted options are subject to performance-based vesting conditions. The granted options are divided into six equal tranches, or 18,092,900 each. The first tranche will become vested when the aggregate number of the Group's vehicle deliveries in any 12 consecutive months exceeds 500,000. The second to sixth tranches will become vested when the aggregate number of vehicle deliveries in any 12 consecutive months exceeds 1,000,000, 1,500,000, 2,000,000, 2,500,000 and 3,000,000, respectively.

On May 5, 2021, the board of directors of the Company approved to replace the options to purchase 108,557,400 Class B ordinary shares of the Company under the Company's 2021 Share Incentive Plan previously granted to Mr. Li Xiang on March 8, 2021 with the same amount of restricted Class B ordinary shares (the"Award Shares") under the same plan, all of which will become legally vested upon grant on May 5, 2021. However, Mr. Li Xiang has also agreed, undertaken, and covenanted not to transfer or dispose of, directly or indirectly, any interest in the Class B ordinary shares acquired upon vesting of the Award Shares, which are still subject to certain restrictions, terms and performance conditions substantially similar to the vesting conditions of the options being replaced. In addition to the performance conditions, Mr. Li Xiang is required to pay US$14.63 per share, which is equal to the exercise price of the options being replaced, to have the relevant tranche of the Award Shares released from the restrictions. Mr. Li Xiang also has agreed, undertaken, and covenanted not to cast any vote or claim any dividend paid on any Award Shares before such number of Award Shares are released from the restrictions. Any Award Shares that are not released from the restrictions by March 8, 2031 are subject to compulsory repurchase by the Company at their par value.

In July 2021, all such 108,557,400 Award Shares were converted from Class B Ordinary Shares (10 votes per share) to Class A Ordinary Shares (1 vote per share) on one-to-one basis with effect immediately upon the Company's listing on the Main Board of HKEx in August 2021. The modification is solely subjected to satisfy HKEx's requirement from legal perspective. Pursuant to the grant of the Award shares, Mr. Li Xiang has undertaken and covenanted that unless and until, in respect of any tranche of Award Shares,(a) the relevant performance condition has been met and (b) the relevant exercise price (US$14.63) has been paid, Mr. Li Xiang will not offer, pledge, sell any relating award shares and claim dividend or voting rights in respect of the Award Shares.

As of March 31, 2022, the Group did not recognized any compensation expenses for shares granted to Mr. Li Xiang, because the Group considers it is not probable that the performance-based vesting conditions will be satisfied as of March 31, 2022. Therefore, there were US$538,445 of unrecognized compensation expenses related to the restricted shares granted under 2021 Plan as of March 31, 2022.

The following table summarizes activities of the Company's performance-based restricted shares under the 2021 Plan for the three months ended March 31, 2022:

	Number of Shares Granted	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
		US$	*In Years*	*US$*
December 31, 2021	108,557,400	14.63	9.19	–
Granted	–	–		
March 31, 2022	108,557,400	14.63	9.19	–

The weighted-average grant date fair value for restricted shares granted under the Company's 2021 Plan for the three months ended March 31, 2022 was US$4.96, computed using the binomial pricing model.

The fair value of the restricted shares granted under the Company's 2021 Plan was estimated on the date of grant using the binomial pricing model with the assumptions (or ranges thereof) in the following table:

	For the Three Months Ended March 31, 2022
Exercise price (US$)	14.63
Fair value of the ordinary shares on the date of restricted shares grant (US$)	10.67
Risk-free interest rate	1.59%
Expected term (in years)	10.00
Expected dividend yield	0%
Expected volatility	47%

Risk-free interest rate is estimated based on the yield curve of US Sovereign Bond as of the valuation date. The expected volatility at the grant date and each valuation date is estimated based on annualized standard deviation of daily stock price return of comparable companies with a time horizon close to the expected expiry of the term of the restricted shares. The Group has never declared or paid any cash dividends on its capital stock, and the Group does not anticipate any dividend payments in the foreseeable future. Expected term is the contract life of the restricted shares.

24. TAXATION

(a) Value added tax

The Group is subject to statutory VAT rate of 13% for revenue from sales of vehicles and spare parts in the PRC.

Wheels Technology is subject to 13% VAT for software research and development and relevant services. Wheels Technology is entitled to an immediate 10% VAT refund from April 2021, which is a refund in excess of 3% VAT on the total VAT payable, after completing the registration with relevant authorities and obtaining a refund approval from local tax bureau. For the three months ended March 31, 2022, RMB125,046 of VAT refunds were received and were recorded as Others, net.

(b) Income taxes

Cayman Islands

The Company is incorporated in the Cayman Islands and conducts most of its business through its subsidiaries located in Mainland China and Hong Kong. Under the current laws of the Cayman Islands, the Company is not subject to tax on either income or capital gain. Additionally, upon payments of dividends to the shareholders, no Cayman Islands withholding tax will be imposed.

PRC

Beijing CHJ and Wheels Technology are qualified as a "high and new technology enterprise" under the EIT Law and are eligible for a preferential enterprise income tax rate of 15%, respectively. The high and new technology enterprise certificate is effective for a period of three years. Other Chinese companies are subject to enterprise income tax ("EIT") at a uniform rate of 25% as of December 31, 2021.

Wheels Technology, which is our wholly-owned entity primarily engaged in the operations of technology, software research and development and relevant services, was awarded as a Software Enterprise and was thereby entitled to an income tax exemption for two years beginning from its first profitable calendar year since 2021, and a 50% reduction in the standard statutory rate for the subsequent three consecutive years.

Under the EIT Law enacted by the National People's Congress of PRC on March 16, 2007 and its implementation rules which became effective on January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign investment enterprise in the PRC to its foreign investors who are non-resident enterprises are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Under the taxation arrangement between the PRC and Hong Kong, a qualified Hong Kong tax resident which is the "beneficial owner" and directly holds 25% or more of the equity interest in a PRC resident enterprise is entitled to a reduced withholding tax rate of 5%. The Cayman Islands, where the Company was incorporated, does not have a tax treaty with PRC.

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

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses incurred as tax deductible expenses when determining their assessable profits for that year (the "R&D Deduction"). The State Taxation Administration of the PRC announced in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses as R&D Deduction from January 1, 2018 to December 31, 2023.

Withholding tax on undistributed dividends

According to the current EIT Law and its implementation rules, foreign enterprises, which have no establishment or place in China but derive dividends, interest, rents, royalties and other income (including capital gains) from sources in China or which have an establishment or place in China but the aforementioned incomes are not connected with the establishment or place shall be subject to the PRC withholding tax ("WHT") at 10% (a further reduced WHT rate may be available according to the applicable double tax treaty or arrangement provided that the foreign enterprise is the tax resident of the jurisdiction where it is located and it is the beneficial owner of the dividends, interest and royalties income).

Hong Kong

Under the current Hong Kong Inland Revenue Ordinance, the subsidiaries of the Group incorporated in Hong Kong are subject to 16.5% Hong Kong profit tax on their taxable income generated from operations in Hong Kong. Additionally, payments of dividends by the subsidiaries incorporated in Hong Kong to the Company are not subject to any Hong Kong withholding tax.

Composition of income tax expense and income tax benefit for the periods presented is as follows:

	For the Three Months Ended March 31,	
	2021	**2022**
Current income tax expense	–	33,826
Deferred income tax expense/(benefit)	25,955	(3,595)
Total	**25,955**	**30,231**

A reconciliation of the income tax expense computed by applying the PRC statutory income tax rate of 25% to the Group's income tax expense for each of the periods presented is as follows:

	For the Three Months Ended March 31,	
	2021	**2022**
(Loss)/Income before income tax expense	(334,012)	19,365
Income tax credit computed at PRC statutory income tax rate of 25%	(83,503)	4,841
Tax effects of tax-exempt entity and preferential tax rate	(207)	(100,491)
Tax effect of R&D deduction and others	(25,851)	(91,392)
Non-deductible expenses	37,611	131,413
Change in valuation allowance	97,905	85,860
Income tax expense	**25,955**	**30,231**

25. FAIR VALUE MEASUREMENT

Assets and liabilities measured at fair value on a recurring basis

Assets and liabilities measured at fair value on a recurring basis include: short-term investments and investment in equity securities with readily determinable fair values.

The following table presents the major financial instruments measured at fair value, by level within the fair value hierarchy as of December 31, 2021 and March 31, 2022.

		Fair Value Measurement at Reporting Date Using		
	Fair Value as of December 31, 2021	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Short-term investments	19,157,428	–	19,157,428	–
Equity securities with readily determinable fair value	28,452	28,452	–	–
Total assets	**19,185,880**	**28,452**	**19,157,428**	**–**

		Fair Value Measurement at Reporting Date Using		
	Fair Value as of March 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Short-term investments	15,961,914	–	15,961,914	–
Equity securities with readily determinable fair value	23,367	23,367	–	–
Total assets	**15,985,281**	**23,367**	**15,961,914**	**–**

Valuation Techniques

Short-term investments: Short-term investments are investments in financial instruments with variable interest rates and maturity dates within one year. Fair value is estimated based on quoted prices of similar financial products provided by the banks at the end of each period (Level 2). The related gain/(loss) amounts are recognized in "interest income and investment income, net" in the unaudited condensed consolidated statements of comprehensive loss.

Equity securities with readily determinable fair value: Equity securities with readily determinable fair values are marketable equity securities which are publicly traded stocks measured at fair value. These securities are valued using the market approach based on the quoted prices in active markets at the reporting date. The Company classifies the valuation techniques that use these inputs as Level 1 of fair value measurements. The related gain/(loss) amounts are recognized in "interest income and investment income, net" in the unaudited condensed consolidated statements of comprehensive loss.

Assets measured at fair value on a nonrecurring basis

Assets measured at fair value on a non-recurring basis include: investments in equity securities without readily determinable fair value and equity method investments. For investments in equity securities without readily determinable fair value, no measurement event occurred during the periods presented. The equity securities without readily determinable fair value were RMB93,150 as of December 31, 2021 and March 31, 2022. No impairment charges were recognized for the three months ended March 31, 2021 and 2022. For equity method investments, no impairment loss was recognized for all periods presented. The Group recorded nil impairment loss of long-lived assets for the three months ended March 31, 2021 and 2022.

Assets and liabilities not measured at fair value but fair value disclosure is required

Financial assets and liabilities not measured at fair value include cash equivalents, time deposits, restricted cash, trade receivable, amounts due from related parties, prepayments and other current assets, short-term borrowings, trade and notes payable, amounts due to related parties, accruals and other current liabilities, other non-current assets, other non-current liabilities, and long-term borrowings.

The Group values its time deposits held in certain bank accounts using quoted prices for securities with similar characteristics and other observable inputs, and accordingly, the Group classifies the valuation techniques that use these inputs as Level 2. The Group classifies the valuation techniques that use the inputs as Level 2 for short-term borrowing as the rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market.

Trade receivable, amounts due from related parties, prepayments and other current assets, trade and notes payable, amounts due to related parties and accruals and other current liabilities are measured at amortized cost, their fair values approximate their carrying values given their short maturities.

Secured borrowing and convertible debts are measured at amortized cost. Their fair values were estimated by discounting the scheduled cash flows through to estimated maturity using estimated discount rates based on current offering rates of comparable institutions with similar services. The fair value of these borrowings obligations approximate their carrying value as the borrowing rates are similar to the market rates that are currently available to the Group for financing obligations with similar terms and credit risks and represent a level 2 measurement.

26. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

The Group's capital commitments primarily relate to commitments on construction and purchase of production facilities, equipment and tooling. Total capital commitments contracted but not yet reflected in the unaudited condensed consolidated financial statements as of March 31, 2022 were as follows:

	Total	Less than One Year	1-3 Years	3-5 Years	Over 5 Years
Capital commitments	4,384,332	3,973,887	410,445	–	–

(b) Purchase obligations

The Group's purchase obligations primarily relate to commitments on purchase of raw materials. Total purchase obligations contracted but not yet reflected in the unaudited condensed consolidated financial statements as of March 31, 2022 were as follows:

	Total	Less than One Year	1-3 Years	3-5 Years	Over 5 Years
Purchase obligations	15,869,114	15,869,114	–	–	–

(c) Legal proceedings

The Group records a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Group reviews the need for any such liability on a regular basis.

Chongqing Zhizao was subject to ongoing legal proceedings arising from disputes of contracts entered into prior to the Company's acquisition of Chongqing Zhizao in December 2018. Most of these legal proceedings were still at preliminary stages, and the Company was unable to predict the outcome of these cases, or reasonably estimate a range of the possible loss, if any, given the current status of the proceedings. Other than the unpaid contract amount that the Company assumed from Lifan Acquisition and included as the Retained Assets and Liabilities, the Company did not record any accrual for expected loss payments with respect to these cases as of December 26, 2019. The unpaid contract amounts were immaterial as of December 31, 2021 and March 31, 2022. In addition to the indemnification of the Retained Assets and Liabilities the Company obtained from Lifan Passenger Vehicle, Lifan Industry also agreed in the Lifan Acquisition Agreement that, it will indemnify any damages and loss arising from disputes of contracts entered into by Chongqing Zhizao prior to the Company's acquisition of Chongqing Zhizao, including but not limited to above legal proceedings.

On December 26, 2019, the Group disposed 100% equity interest of Chongqing Zhizao (Note 5), and the ongoing legal proceedings of Chongqing Zhizao were transferred out to Lifan Industry and Lifan Passenger Vehicle.

Other than the above legal proceedings, the Group does not have any material litigation, and has not recorded any material liabilities in this regard as of December 31, 2021 and March 31, 2022.

27. RELATED PARTY BALANCES AND TRANSACTIONS

The principal related parties with which the Group had transactions during the periods presented are as follows:

Name of Entity or Individual	**Relationship with the Company**
Beijing Yihang Intelligent Technology Co., Ltd. ("Beijing Yihang")	Affiliate
Neolix Technologies Co., Ltd. ("Neolix Technologies")	Affiliate
Airx (Beijing) Technology Co., Ltd. ("Airx")	Affiliate
Beijing Judianchuxing Technology Limited ("Beijing Judianchuxing")	Affiliate
Beijing Sankuai Online Technology Co., Ltd. ("Beijing Sankuai")	Controlled by Principal Shareholder
Suzhou Yihang Intelligent Technology Co., Ltd. ("Suzhou Yihang")	Affiliate
Changzhou Huixiang New Energy Auto Parts Co., Ltd. ("Changzhou Huixiang")	Affiliate
Hanhai Information Technology (Shanghai) Co., Ltd. ("Hanhai")	Controlled by Principal Shareholder

The Group entered into the following significant related party transactions:

	For the Three Months Ended March 31,	
	2021	**2022**
Purchase materials from Beijing Yihang	20,023	68
Purchase service from Beijing Sankuai	–	1,246
Purchase S&A service from Hanhai	–	240

The Group had the following significant related party balances:

	As of	
	December 31, 2021	**March 31, 2022**
Due from Neolix Technologies	678	678
Due from Beijing Yihang	334	6
Total	**1,012**	**684**

	As of December 31, 2021	As of March 31, 2022
Due to Changzhou Huixiang	30,000	–
Due to Beijing Yihang	7,102	7,097
Due to Beijing Sankuai	330	799
Due to Hanhai	–	240
Due to Airx	23	23
Total	**37,455**	**8,159**

28. SUBSEQUENT EVENT

In December 2021, one of the Group's subsidiaries, entered into an agreement to invest a 70% equity interest in a joint venture (another shareholder holding the remaining 30% equity interest) established to design, produce and sell automotive power module and electronics products. In April 2022, this transaction was closed (cash consideration in the amount of RMB210,000) and the Group obtained control over the joint venture. Upon obtaining control, the Group consolidated the joint venture with a non-controlling interest.

In March 2022, one of the Group's subsidiaries, entered into an agreement with Xin Wang Da Electronic Limited ("Xin Wang Da Eletronic") to purchase certain series Pre-A preferred shares of Xin Wang Da Electric Vehicle and Battery Limited, a subsidiary of Xin Wang Da Eletronic. This transaction (cash consideration in the amount of RMB400,000), resulted in the Group's approximately 3.2% equity ownership in the Xin Wang Da Electric Vehicle and Battery Limited. In April 2022, this transaction was closed and the Group accounted for the investment using the measurement alternative, recording the investment at cost, adjusted for subsequent observable price changes and impairments, if any.