



Xiao-I Corporation Announces Unaudited and Unreviewed First Half 2023 Financial Results

September 25, 2023

- Net revenues grew 106% year over year to a record high of US\$26.5 million

- Gross margin rose 620 basis points year over year to 77.3%

- Cash and cash equivalents more than quadrupled to US\$4.7 million, compared with end-2022

SHANGHAI, China, Sept. 25, 2023 (GLOBE NEWSWIRE) -- Xiao-I Corporation (Nasdaq: AIXI) ("Xiao-I" or the "Company"), a leading cognitive artificial intelligence ("AI") enterprise in China, today announced its unaudited and unreviewed financial results for the six months ended June 30, 2023.

First Half 2023 Financial Highlights

- Net revenues increased 106% year over year to a record high of US\$26.5 million.
- Sale of cloud platform products increased 523% year over year to US\$22.7 million.
- Gross profit increased 124% year over year to US\$20.5 million.
- Gross margin was 77.3%, up 620 basis points year over year.

Mr. Hui Yuan, Chairman and Chief Executive Officer of Xiao-I, commented, "Amidst our industry's dynamic and ever-evolving landscape, we remained steadfast in our dedication to innovation and growth. Our results speak volumes, as we achieved an outstanding 106% increase in net revenues during the first half of this year, reaching a record-breaking \$26.5 million. This remarkable performance underscores the value of our continuous investments in cutting-edge AI technology that are effectively aligned with the growing digital transformation demands of various businesses."

"Our commitment to innovation is exemplified by our unparalleled R&D investment in the first half of 2023, which surpasses our entire investment for the previous year. More importantly, we have significantly expanded our product and service portfolio with the introduction of our distinguished large language model, Hua Zang. This innovative offering is expected to be seamlessly applied across a wide array of industries swiftly with cost-efficiency, opening up new horizons for our clients. In addition to our product innovations, we have also made substantial strides in our global expansion. This includes the establishment of a U.S. subsidiary and active participation in a local exhibition. These concerted efforts place us in a good position to lead the global AI industry into a future full of immense opportunities and transformative solutions to drive our continued growth."

Recent Developments and Strategic Highlights:

- **Secured Contract for AI Contact Center Project with Leading Chinese Aviation Group:** In June 2023, Xiao-I secured a contract for an intelligent contact center project with a leading Chinese aviation group. This partnership aims to enhance the aviation group's service provision capabilities and drive its digital transformation.
- **Introduced Pioneering Hua Zang Generative AI Model:** In June 2023, Xiao-I launched Hua Zang, its advanced large language model. The model, analogous to an operating system, is built on Xiao-I's robust platform capabilities and designed to empower various industries.
- **Establishment of U.S. Subsidiary as Part of Going Global Strategy:** In June 2023, Xiao-I established an U.S. subsidiary, Xiao-I Plus Inc., marking another significant milestone for its global expansion strategy.
- **Launched IDP Solution for Future-Ready Enterprise Document Management:** In May 2023, Xiao-I launched its state-of-the-art Intelligent Document Processing ("IDP") product. This innovative solution is delivered by a smart and efficient platform that streamlines and automates the document management process, empowering businesses towards an era of intelligent operations.
- **Recognition as Outstanding Supplier by China Merchants Bank Credit Card Center:** In May 2023, Xiao-I announced that the Credit Card Center of China Merchants Bank Co. recognized it as an outstanding supplier. This prestigious acknowledgement follows the Bank's annual supplier assessment evaluation for 2022, during which Xiao-I demonstrated exemplary performance in business collaboration, product implementation, and service quality.

First Half 2023 Financial Results

Net Revenues

Net revenues were US\$26.5 million for the first half of 2023, up 106% year over year from US\$12.9 million for the same period of 2022. The increase was primarily due to the increased sales of cloud platform products and hardware products.

| By Revenue Type | 1H 2023 | 1H 2022 | % Change YoY |
|---------------------------------|---------------|--------------|--------------|
| Sale of cloud platform products | \$ 22,719,659 | \$ 3,648,339 | 523 |
| Technology development service | 1,763,797 | 6,296,844 | (72) |
| Sale of software products | 535,004 | 1,397,996 | (62) |
| Maintenance & support service | 1,426,784 | 1,497,871 | (5) |

| | | | |
|---------------------------|----------------------|----------------------|------------|
| Sale of hardware products | 30,175 | 18,431 | 64 |
| Total | \$ 26,475,419 | \$ 12,859,481 | 106 |

Cost of Revenues

Cost of revenues was US\$6.0 million for the first half of 2023, up 61% year over year from US\$3.7 million for the same period of 2022. With a smaller increase compared to net revenues, cost efficiency has improved due to economies of scale.

Gross Profit

Gross profit was US\$20.5 million for the first half of 2023, representing an increase of 124% year over year from US\$9.1 million for the same period of 2022. Gross margin was 77.3% for the first half of 2023, up 620 basis points from 71.1% for the same period of 2022. The increase in gross margin was mainly due to a shift in product mix towards subscription for cloud platform products from one-time software sales.

Operating Expenses

Total operating expenses were US\$34.1 million in the first half of 2023, representing an increase of 355% year over year from US\$7.5 million for the same period of 2022. While the selling, general and administrative expenses demonstrated improved efficiency with larger business scales, they couldn't offset the increase in research and development expenses, which grew by 708% year over year.

Income (Loss) from Operations

Loss from operations was US\$13.6 million for the first half of 2023, compared to an income of US\$1.6 million from operations for the same period of 2022.

Total Other Loss

Total other loss was US\$1.3 million for the first half of 2023, generally on par with the same period of 2022.

Net Income (Loss)

Net loss was US\$18.8 million for the first half of 2023, compared to a net income of US\$0.6 million for the same period of 2022.

The financial statements for the first half year ended June 30, 2023 herein have not been audited or reviewed by the Company's independent registered accounting firm. The financial statements for the six months ended June 30, 2023 to be disclosed in the Company's Form 6-K may differ from the above-mentioned unaudited and unreviewed financial statements.

Conference Call Information

The Company will conduct a corresponding conference call at 8:00 a.m. U.S. Eastern Time (8:00 p.m. China Time) to discuss the results.

What: Xiao-I First Half 2023 (ended June 30, 2023) Earnings Call

When: 8:00 a.m. U.S. Eastern Time on Monday, September 25, 2023

Webcast: ir.xiaoi.com/events

To join the conference call via telephone, participants must use the following link to complete an online registration process. Upon registering, each participant will receive email instructions to access the conference call, including dial-in information and a PIN number allowing access to the conference call. This pre-registration process is designed by the operator to reduce delays due to operator congestion when accessing the live call.

Online Registration: <https://register.vevent.com/register/BI10db54de77c5448db98e85f4efbfed41>

Participants who have not pre-registered may join the webcast by accessing the link at ir.xiaoi.com/events.

A live and archived webcast of the conference call will be available on the Investors section of Xiao-I's website at www.xiaoi.com.

About Xiao-I Corporation

Xiao-I Corporation is a leading cognitive intelligence enterprise in China that offers a diverse range of business solutions and services in artificial intelligence, covering natural language processing, voice and image recognition, machine learning and affective computing. Since its inception in 2001, the Company has developed an extensive portfolio of cognitive intelligence technologies that are highly suitable and have been applied to a wide variety of business cases. Xiao-I powers its cognitive intelligence products and services with its cutting-edge, proprietary AI technologies to enable and promote industrial digitization, intelligent upgrading, and transformation.

Forward-Looking Statements

Certain statements in this announcement are forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties and are based on the Company's current expectations and projections about future events that the Company believes may affect its financial condition, results of operations, business strategy and financial needs. Investors can identify these forward-looking statements by words or phrases such as "approximates," "assesses," "believes," "hopes," "expects," "anticipates," "estimates," "projects," "intends," "plans," "will," "would," "should," "could," "may" or similar expressions. The Company undertakes no obligation to update or revise publicly any forward-looking statements to reflect subsequent occurring events or circumstances, or changes in its expectations, except as may be required by law. Although the Company believes that the expectations expressed in these forward-looking statements are reasonable, it cannot assure you that such expectations will turn out to be correct, and the Company cautions investors that actual results may differ materially from the anticipated results and encourages investors to review other factors that may affect its future results in the Company's registration statement and other filings with the SEC.

For investor and media inquiries, please contact:

Ms. Berry Xia

XIAO-I CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
 (In U.S. dollars, except for share and per share data, or otherwise noted)

| | As of | |
|--|----------------------|----------------------|
| | December 31, 2022 | June 30, 2023 |
| | | (Unaudited) |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,026,245 | \$ 4,746,836 |
| Accounts receivable, net | 41,362,705 | 16,025,831 |
| Amounts due from related parties | 346,517 | - |
| Inventories | 768,216 | 701,119 |
| Contract costs | 2,012,309 | 1,936,073 |
| Advance to suppliers | 1,115,672 | 1,586,618 |
| Deferred offering costs | 1,330,902 | - |
| Prepaid expenses and other current assets, net | 460,854 | 6,656,705 |
| Total current assets | 48,423,420 | 31,653,182 |
| Non-current assets: | | |
| Property and equipment, net | 219,470 | 313,953 |
| Intangible assets, net | 637,114 | 557,995 |
| Long-term investment | 2,852,492 | 3,187,416 |
| Right of use assets | 865,399 | 969,400 |
| Deferred tax assets, net | 3,888,574 | - |
| Prepaid expenses and other, non-current assets | 3,697,675 | 3,616,218 |
| Amount due from related parties-non current | - | 11,018,714 |
| Total non-current assets | 12,160,724 | 19,663,696 |
| TOTAL ASSETS | \$ 60,584,144 | \$ 51,316,878 |
| Commitments and Contingencies | | |
| Liabilities | | |
| Current liabilities: | | |
| Short-term borrowings | \$ 18,784,459 | \$ 16,548,757 |
| Accounts payable | 9,180,532 | 7,222,235 |
| Amount due to related parties-current | 896,431 | 742,714 |
| Deferred revenue | 2,553,808 | 3,444,636 |
| Convertible loans | 3,754,269 | - |
| Accrued expenses and other current liabilities | 17,006,713 | 9,214,618 |
| Lease liabilities, current | 435,462 | 458,018 |
| Total current liabilities | 52,611,674 | 37,630,978 |
| Non-current liabilities: | | |
| Amount due to related parties-non current | 8,581,743 | 7,573,563 |
| Accrued liabilities, non-current | 8,073,912 | 5,194,843 |
| Lease liabilities, non-current | 300,974 | 392,436 |
| Total non-current liabilities | 16,956,629 | 13,160,842 |
| TOTAL LIABILITIES | 69,568,303 | 50,791,820 |
| Shareholders' (deficit)/equity | | |
| Ordinary shares (par value of \$0.00005 per share; 1,000,000,000 shares authorized as of December 31, 2022 and June 30, 2023, respectively; 22,115,592 and 24,015,592 shares issued and outstanding as of December 31, 2022 and June 30, 2023, respectively) | \$ 1,106 | \$ 1,201 |

| | | |
|---|----------------------|----------------------|
| Additional paid-in capital | 75,621,294 | 108,762,797 |
| Statutory reserve | 237,486 | 237,486 |
| Accumulated deficit | (78,483,156) | (102,449,177) |
| Accumulated other comprehensive loss | (3,262,666) | (2,852,695) |
| XIAO-I CORPORATION shareholders' (deficit)/equity | (5,885,936) | 3,699,612 |
| Non-controlling interests | (3,098,223) | (3,174,554) |
| Total shareholders' (deficit)/equity | (8,984,159) | 525,058 |
| TOTAL LIABILITIES AND SHAREHOLDERS' (DEFICIT)/EQUITY | \$ 60,584,144 | \$ 51,316,878 |

XIAO-I CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
(In U.S. dollars, except for share and per share data, or otherwise noted)

| | For the six months ended June 30, | |
|---|--------------------------------------|------------------------|
| | 2022 | 2023 |
| Sale of software products | \$ 1,397,996 | \$ 535,004 |
| Sale of hardware products | 18,431 | 30,175 |
| Technology development service | 6,296,844 | 1,763,797 |
| M&S service | 1,497,871 | 1,426,784 |
| Sale of cloud platform products | 3,648,339 | 22,719,659 |
| Net revenues | 12,859,481 | 26,475,419 |
| Cost of sale of software products | (170,377) | (368,021) |
| Cost of sale of hardware products | (12,545) | (26,118) |
| Cost of technology development service | (2,661,707) | (1,286,290) |
| Cost of M&S service | (339,213) | (805,948) |
| Cost of sale of cloud platform products | (536,863) | (3,519,521) |
| Cost of revenues | (3,720,705) | (6,005,898) |
| Gross profit | 9,138,776 | 20,469,521 |
| Operating expenses: | | |
| Selling expenses | (2,094,124) | (2,377,409) |
| General and administrative expenses | (1,725,928) | (2,070,052) |
| Research and development expenses | (3,669,196) | (29,649,703) |
| Total operating expenses | (7,489,248) | (34,097,164) |
| Income/(Loss) from operations | 1,649,528 | (13,627,643) |
| Other loss: | | |
| Investment losses | (121,618) | (225,351) |
| Interest expenses | (1,202,391) | (1,570,847) |
| Other income, net | 44,160 | 525,431 |
| Total other loss | (1,279,849) | (1,270,767) |
| Income/(Loss) before income tax expense | 369,679 | (14,898,410) |
| Income tax benefits/(expenses) | 220,820 | (3,871,118) |
| Net income/(loss) | \$ 590,499 | \$ (18,769,528) |
| Net loss attributable to non-controlling interests | (2,674) | (173,782) |
| Net income/(loss) attributable to XIAO-I CORPORATION shareholders | 593,173 | (18,595,746) |
| Other comprehensive income/(loss) | | |
| Foreign currency translation change, net of nil income taxes | 145,129 | 507,422 |
| Total other comprehensive income | 145,129 | 507,422 |
| Total comprehensive income/(loss) | \$ 735,628 | \$ (18,262,106) |
| Total comprehensive income/(loss) attributable to non-controlling interests | 124,849 | (76,331) |
| Total comprehensive income/(loss) attributable to XIAO-I CORPORATION shareholders | 610,779 | (18,185,775) |
| Earnings/(Loss) per ordinary share attributable to XIAO-I CORPORATION shareholders | | |
| Basic | 0.03 | (0.80) |
| Diluted | 0.03 | (0.80) |
| Weighted average number of ordinary shares outstanding | | |

Basic
Diluted

| | |
|------------|------------|
| 22,115,592 | 23,308,370 |
| 22,362,552 | 23,308,370 |