

## MOGU TECHNOLOGIES: COVID-19 Impact Statement

Mogu is issuing an official impact statement regarding the COVID-19 pandemic. This document outlines the challenges Mogu faces during the global pandemic and the impact to our business and stakeholders. We believe transparency will help mitigate future risk and establish best practices for leadership on moving forward.

### PERSONNEL AND OPERATIONS

Due to our primary office locations in both Mainland China and Malaysia, COVID-19 greatly impacted both the whole of our technical team and our core marketing team. Our marketing team, located in Malaysia, is currently on lockdown and unable to collaborate from within our office. Our mainland China technical team endured a temporary work suspension in the early stages of the pandemic and continues to adhere to a government-required home lockdown.

While we successfully moved most operations to work-from-home, the transition created significant project delays. Most notably, essential elements of Mogu's hardware development could not resume remotely due to the short-notice provided by China's COVID-19 containment response. Specifically, the Nanjing hardware team was highly disrupted by the suspension of on-site development, as they required access to both on-site tools, in-progress materials, and face-to-face collaboration. We are evaluating updated timelines as China moves back to normal operations.

### GOVERNMENT SECTOR

Mogu requires CCC (China Compulsory Certificate) approval from the CNCA (Certification and Accreditation Administration of the People's Republic of China) for all hardware products. The most recent iteration of the Mogu Smart Router (Version 2) was lodged for CCC approval prior to the outbreak of COVID-19. However, China's governmental departments were highly disrupted by the outbreak and severely restricted over the last few months. While our approval is in queue, manufacturing requires completion of official certification before router production proceeds. The CNCA has provided a tentative timeline of 4 to 6 weeks for CCC certification, from the date of this release.

While we diligently work with our suppliers and manufacturers on renewed order timelines for the Mogu Smart Router, these timelines are dependent on Chinese governmental certifications to move forward.



## SUPPLIERS

Mogu router hardware relies on a number of external suppliers to fulfil purchase orders for the Mogu Smart Router. This includes the supply of chipsets, casing, and other critical components necessary for router completion.

Many of the materials required by our manufacturers for production are sourced from within China and other countries greatly affected by the COVID-19 constraints. As factories were shut down, facilities disrupted, and on-site norms adjusted for public safety, manufacturers now face unprecedented delays in the supply-chain required for production.

Many manufacturers are experiencing a backlog of components required for production. We're working with our suppliers to gauge our priority versus the priority of larger companies (such as Huawei, D-Link, and Xiamoi) who also require these components. Additionally, we are evaluating the price differentials from pre-COVID quotes to post-COVID quotes. These price differentials will determine the viability of Mogu production moving forward as planned.

## PRODUCTION

The Chinese factories Mogu uses for router production were among the first to be affected by COVID-19 containment efforts. While facilities are re-opening, manufacturers are still limiting the number of workers allowed in any single factory. Most factories are also operating at a fraction of regular capacity. McKinsey's official COVID-19 report estimates facilities who re-open will be operating at a maximum of 60% capacity. In some instances, there are long delays in obtaining key components.

While we are hopeful manufacturing in China will resume as planned, there is still uncertainty regarding the global impact of COVID-19 on the Chinese manufacturing sector. Our production timelines are estimated at three to four months, but official timelines can only be delivered after CCC approval is granted. As COVID-19 has provided unpredictable circumstances thus far, we believe it is imperative to remain conservative with the adjustment and delivery of our timelines for router production.

Similar to the challenges facing material suppliers, our manufacturer Zowee Technology Co., Ltd. (Shenzhen) also produces for big players such as Huawei and Xiaomi. We are working to ensure Zowee's backlog and order priority will not affect our quoted future timelines. We are currently confirming the status of our Q4 2019 order for 5,000 routers. Whilst we are leveraging our existing relationships, we are reasonably expecting timelines to be delayed.



## INVENTORY MANAGEMENT

The reduction in the demand for goods purchased from China has meant most warehousing and third-party-logistics (3PL) facilities have been harshly overburdened. There is a backlog of inventory, and many warehouses are no longer accepting additional inventory due to capacity constraints.

Whilst this issue is less pressing for the business, it is one that has to be considered within the logistics roadmap for our future production. Mogu's previous warehousing logistics solution needs to be evaluated under these revised circumstances. We actively continue to search for a viable solution.

## UPSTREAM CLIENTS

Mogu's largest upstream client closed operations. As Chinese COVID-19 outbreak completes containment protocols, operations have yet to resume. Our most recent communications indicate their business closure will continue indefinitely and thus all on-going purchase orders were cancelled, representing a loss to the lion's share of our enterprise revenue.

Clearly, the loss of these orders is a severe impact to Mogu's forecasted revenue. Our forecasts are being updated according to this new information. We are also surveying market potential to onboard and service similar clients in the ecommerce space.

## FINANCIAL

Mogu development operates at a high monthly cost, given the extensive staff required for complex, multi-levelled development and operation in the niche field of embedded software for hardware production. Our financial forecasts and burn-rate on capital did not account for:

- (a) extreme depreciation in both fiat and cryptocurrencies, inc MOGX;
- (b) reduction in revenues and the loss of our biggest client;
- (c) severe impact to the group of companies to which Mogu belongs due to financial market turmoil; and
- (d) ongoing fixed costs with delayed timelines from suppliers, government, manufacturers and distributors.

Mogu is now forced to assess downsizing the number of engineering staff and optimizing existing resources toward our business continuity plan, which will now consider the current and projected impact of COVID-19.



## CHALLENGES PRESENT OPPORTUNITIES

Mogu was built in the face of adversity. We run with a lean, but amazing team. To reach the heights we've grown to today, we were forced to overcome many obstacles. Some of these obstacles seemed impossible at the time. Our goal is to enact lasting industry change, and the risk of introducing an entirely new concept and successfully launching a new product exemplifies what it means to be a tech start-up. Mogu has tirelessly fought to achieve our vision thus far. We will continue to fight to be the change we want to see in the world. Our passion to make the world a better place drives us forward.

However, these challenges are unprecedented—not just in our industry, but for many across the globe. COVID-19 has forced us to completely reassess almost every aspect of our business. In a crisis, the best leaders make decisions amid uncertainty by pausing to assess and anticipate, and then act. A crisis involves many unknowns and surprises, facts may not become clear within the necessary decision-making time frame. As such, we continually incorporate new information as it becomes available and update our plan accordingly.

Overall, we believe the challenges of COVID-19 can yield a positive outcome for Mogu. We hope that with the necessary evaluation of everything from our Suppliers to our Distribution networks, we have the chance to truly optimize our business and ultimately ensure Mogu is laying stronger foundations for future growth. This is our chance to pause, assess, anticipate, and then act.

To all our stakeholders, we just want to say thank you for supporting Mogu and our vision throughout this incredibly challenging time. We know our communication has been a bit staggered, so we thank you for your patience and your belief.

