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Application Proof of

XIAOMI CORPORATION
小米集团

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

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XIAOMI CORPORATION
小米集团

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

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Number of Hong Kong [REDACTED]	**:**	**[REDACTED] (subject to [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] (subject to [REDACTED] and the [REDACTED])**
[REDACTED]	**:**	**HK$[REDACTED] per [REDACTED] (payable in full on [REDACTED] in Hong Kong dollars subject to refund)**
Nominal value	**:**	**[REDACTED] per [REDACTED]**
Stock code	**:**	**[●]**

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[REDACTED]

The Company is controlled through weighted voting rights. Prospective [REDACTED] should be aware of the potential risks of [REDACTED] in a company with a WVR structure, in particular that the WVR Beneficiaries, whose interests may not necessarily be aligned with those of our Shareholders as a whole, will be in a position to exert significant influence over the outcome of Shareholders' resolutions, irrespective of how other Shareholders vote. For further information about the risks associated with our WVR structure, please refer to the section headed "Risk Factors—Risks Relating to the [REDACTED]." Prospective [REDACTED] should make the decision to [REDACTED] in the Company only after due and careful consideration.

[REDACTED]

EXPECTED TIMETABLE[(1)]

[REDACTED]

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OPEN LETTER FROM OUR CHAIRMAN

Thank you for your interest and support for Xiaomi. As you read this document, I hope you not only see a fast-growing and thriving company, but more importantly, understand how we pioneered an amazing, innovative business model underpinned by courage and trust.

In this letter, I would like to share my personal thoughts on Xiaomi and what we strive for.

We are more than a hardware company. We are an innovation-driven internet company.

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core. Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

Every day for the past eight years, our vision to be friends with our users and to be the "coolest company" in the hearts of our users has motivated us to pursue innovation and maintain an unwavering focus on quality and efficiency. This has resulted in us continually achieving many ground-breaking milestones.

We founded Xiaomi in April 2010. At the time, my co-founders and I had a simple idea—to create a very cool smartphone that we would personally love. Among Xiaomi's eight co-founders, six of us are engineers and two are designers. All of us are hardcore fans of technology.

"Amazing products" and "honest prices" come hand-in-hand. They are inseparable. Only through building amazing products that well exceed people's expectations and offering them at honest prices, can we win over the hearts of our users. Pursuing innovative technology and outstanding design is in our DNA. Our engineers are obsessed with pushing the boundaries of technology, and they repeatedly craft every minute detail to ensure our products completely exceed our users' expectations. We have the courage to break with convention and constantly improve ourselves, and these are the key reasons why we have been able to gain our users' sustained trust and appreciation.

We promote a bold innovative culture, not limited to technology. We are innovative not only in smartphone technology, including materials, displays and SoCs, but also in design, where we have received over 200 globally acclaimed industrial design awards in the past few years. We have a unique "triathlon" business model and have built a one-of-a-kind ecosystem of companies. We have a unique engagement model with our online users, as well as a highly efficient new retail strategy incorporating both online and offline. The spirit of innovation is deeply ingrained in everything we do and motivates us to accelerate our exploration of uncharted waters.

Currently, we are the world's fourth-largest smartphone company. We have created many smart hardware products, among which many are leaders in their respective categories. We have also built the world's largest IoT platform with over 100 million connected devices. In addition, we have 190 million MIUI monthly active users who regularly use our innovative internet services.

What makes us even prouder is that we have completely transformed the industries that we participate in. We have driven the rapid adoption and quality improvement of smartphones in China, laying a strong foundation for the rise of the mobile internet in the country. The rapid development

of mobile payments, e-commerce, social networking, and short-form videos in China can be largely attributed to the penetration of the mobile internet into the lives of hundreds of millions of people. China is now the world's largest smartphone market with a strong and vibrant mobile internet industry. We believe our contributions to this have been widely recognized.

Good companies make profits, great companies also win over people's hearts. We pride ourselves even more in being a technology company with a rare "fan culture." We have a large global community of "Mi Fans," passionate users who are intensely loyal to our brand, highly engaged on our platform and actively contribute feedback and feature ideas to our product development.

After a successful rebound, Xiaomi's business model has been proven again.

As a young Internet company, Xiaomi has conquered many challenges. In 2016, our smartphone sales declined. It was clear to us that because we grew so quickly in our early years, we did not have an adequately strong foundation to face all the challenges in front of us at that time. We deliberately slowed our growth to focus on strengthening three key aspects of our business: innovation, quality and supply management. In 2017, Xiaomi successfully delivered on these key aspects and quickly returned to rapid growth.

As far as we know, apart from Xiaomi, there has never been another smartphone company that has successfully rebounded after a decline in sales.

This was a turning point for Xiaomi. This experience was invaluable for us. We strengthened our management capability, grew our talent pool, broadened our technology foundations and enhanced our supply chain and production capabilities.

More importantly, our business model was tested and proven again.

Xiaomi is more than a hardware company. We are an innovation-driven internet company. Although our hardware business is essential to building our user base, we do not expect it to be the main source of our profits. We maintain excellent design and outstanding quality in our products, while pricing our products as close as possible to cost by selling them to users through highly efficient online and offline new retail channels. We then provide our users with comprehensive internet services.

This is our unique "triathlon" business model, which encompasses hardware, new retail and internet services. Xiaomi's achievements so far illustrate the strength and resilience of our model. Within 7 years of our founding, our annual revenue exceeded RMB100 billion, achieving a growth rate that many traditional companies are unable to match.

The increase in efficiency comes from lowering operating costs, especially sales and marketing costs. Xiaomi's unique business model ensures that our products are high quality and priced honestly, which is the foundation of our users' trust in us.

We pledge that our overall hardware net profit margin will never exceed 5%.

During the early years of Xiaomi's founding, we had a grand dream: to improve the efficiency of the entire business world.

OPEN LETTER FROM OUR CHAIRMAN

For example, in China, a shirt that costs US$15 to produce may retail for as much as US$150. This is a shocking markup of 10 times. A pair of shoes may be marked up by 5 to 10 times, and a tie can be marked up by 20 times. The list is endless.

It has always been difficult for me to understand why businesses are so inefficient. Why do users have to bear the costs of inefficiency? Cost reduction efforts are usually focused on reducing production costs, which may account for only 10% of total costs. Rarely do companies focus on eliminating the inefficiencies in sales, marketing and operations, which may account for 90% of total costs.

Xiaomi has the will and determination to revolutionize the industries that we participate in through relentlessly pursuing cost-efficiencies.

At the beginning of 2011, during our first employee annual meeting, I told more than 100 employees and their families that we wanted to make smartphones with the best performance and user experience, and sell them for only US$300. At that time, similar smartphones were selling for more than US$600.

Great companies are always focused on creating quality products and selling them at better and better prices so that users can get their money's worth.

As Xiaomi continues to progress, we ask ourselves: what has remained constant in the ever-changing business world?

Our answer is that users have always expected amazing products at honest prices.

Many of our users tell us that when they browse Mi Store or visit a Mi Home, they can buy any of our products with full confidence, because they know these products have the best quality and price. When I hear this, I know that all of our energy and efforts are worth it. This is ultimately our goal.

Our users' trust is the foundation of our business and efficiency is the soul. As long as we continue to earn the trust of our users, our business will continue to perform well. A company that is able to achieve world-class efficiency will have the ability to survive multiple economic cycles, continuously seize new opportunities in the industry, and sustain excellent operational performance in the long run.

"Amazing products, honest pricing" comes with real action. At this point, I would like to pledge to our existing and potential users: starting in 2018, Xiaomi's hardware businesses' overall net profit margin will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess to our users.

It is our belief that delivering sustained, high quality user experience is more important than pursuing one-time hardware profits. Focusing on efficiency is more important than short-term

profits. We are confident that maintaining reasonable profits will inevitably become an industry trend. Blindly pushing for higher margins will not be sustainable.

Therefore, I would like to emphasize that we will focus on upholding our users' and our company's long-term interests, which in turn creates more value for our shareholders.

It is our ultimate commitment to efficiency to cap our hardware business net profit margin at 5%. We know that it may take time for everyone to fully embrace our ideals. However, time is on our side. Our steadfast determination and execution will eventually help us to realize our dreams.

Building an open global ecosystem, our potential has no boundaries

Today, we present ourselves to you as we prepare to enter a new stage in our journey. We believe that the potential of our global business is only limited by our imagination.

We are building an open global ecosystem, and not a walled garden. To let everyone on earth enjoy a better life through innovative technology, one "Xiaomi" is not enough. We need to incubate and partner with at least 100 other "Xiaomis" in order to successfully build a rich and vibrant new global business ecosystem.

With our unique ecosystem model, we have mobilized many like-minded entrepreneurs. We are not alone. Together, we have created a comprehensive suite of products that revolve around our smartphones, including mobile peripherals, smart hardware and lifestyle products. Currently, Xiaomi has invested in more than 90 IoT and lifestyle companies, and together, we have changed many industries. In the future, our ecosystem will get even bigger.

We are not only changing industries in China, but also elsewhere in the world. Among the more than 70 countries and regions that we have entered, we are number one in India in terms of smartphone market share and are among the top 5 smartphone companies in 15 countries. We will continue to prove that Xiaomi's business model can be extended globally at a rapid pace.

Building a global ecosystem has provided Xiaomi with more opportunities for long-term development, expanded our boundaries, and further strengthened our foundation. With the era of big data and AI upon us, we believe that the high volume of data generated by our ecosystem will allow us to better understand our users' needs and give us a significant edge to offer improved products and services.

The spirit of engineering runs in our veins. This spirit drives us to relentlessly explore the most advanced technologies in order to benefit as many users as possible and to be the coolest company in the hearts of our users. We believe that everyone in the world should enjoy a better life through innovative technology.

Fundamentally, the Internet is all about transparency, efficiency, and equality. We want to allow everyone, regardless of gender, ethnicity, religion, nationality, or education level, to enjoy the benefits of technology.

OPEN LETTER FROM OUR CHAIRMAN

This is the goal that all Xiaomi employees and I are working tirelessly for.

Thank you for your interest in Xiaomi. Together, I believe we can create a paradigm shift of efficiency in the business world and use technology to improve the lives of many.

To gift honesty to business, to gift warmth to technology, to gift happiness to everyone, our mission has no boundaries, and we have only just begun. We have changed how hundreds of millions of people live, and we will become a part of the lives of billions of people globally in the future.

Good things happen to good people. Please join us on our journey. Always believe.

Sincerely yours,

Lei Jun

SUMMARY

This summary aims to give you an overview of the information contained in this **[REDACTED]**. *As this is a summary, it does not contain all the information that may be important to you. You should read the entire* **[REDACTED]** *before you decide to* **[REDACTED]** *in the* **[REDACTED]**.

There are risks associated with any **[REDACTED]**. *Some of the particular risks in* **[REDACTED]** *are set out in the section headed "Risk Factors." You should read that section carefully before you decide to* **[REDACTED]** *in the* **[REDACTED]**.

OVERVIEW

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core.

Our Mission

We relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

Under the leadership of Lei Jun, Xiaomi was founded in 2010 by a group of accomplished engineers and designers, who believed that high-quality and well-designed technology products and services should be accessible to the world. To achieve this, we are unwavering in our pursuit of advances in innovation, quality, design, user experience and efficiency in an effort to provide the best technology products and services that are accessibly priced to our users.

Our Pledge: In order to achieve our mission, we pledge to our existing and potential users that starting in 2018, Xiaomi's hardware business (including smartphone, IoT and lifestyle products) will have an overall net profit margin that will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess above 5% to our users.

Our Vision

Be friends with our users. Be the coolest company in the hearts of our users.

Our Core Values

Our core values are sincerity and passion.

Our values enable us to pursue and uphold our mission and vision. Our passion for our business drives us to pursue artisanal craftsmanship in all our products. We aspire for perfection in every detail, even if others may not notice immediately. Our sincerity drives us to place our users at the heart of everything we do and listen attentively to their every request. It motivates us to pursue efficiency in our business model in order to continuously provide our users with unparalleled value.

Our Mi Fans

We have a large and highly engaged global user base with approximately 190 million monthly active MIUI users as of March 2018. We believe that our user base is differentiated by our "Mi Fans," a large global community of passionate users who are intensely loyal to the Xiaomi brand, are highly engaged on our platform and actively contribute feedback and feature ideas to our product development. As of March 31, 2018, over 1.4 million users had more than five connected Xiaomi products (excluding smartphones and laptops). In addition, our users are very vocal on our MIUI forum, which has over nine million MAUs in March 2018. As of March 31, 2018, our users had collectively generated approximately 250 million posts on our MIUI forum since we launched it in August 2010.

Our Milestones

Our unique mission, vision and core values have made the following significant achievements possible since our inception in 2010:

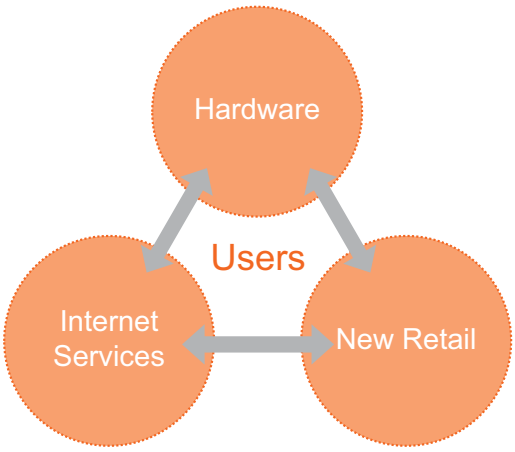
- 2012: Annual sales exceeded US$1 billion (two years after inception)
- 2014: Number one smartphone company in mainland China by unit shipments, according to IDC (three years after launching our first smartphone)

- 2014: Annual sales exceeded US$10 billion, four years after inception, which is the fastest in history, according to iResearch
- 2015: MIUI MAUs exceeded 100 million
- 2017: The world's largest consumer IoT platform in terms of the number of connected devices (excluding smartphones and laptops), according to iResearch
- 2017: Number one smartphone company in India by unit shipments in the fourth quarter of 2017, according to IDC (three and a half years after officially entering the India market)
- 2017: Fastest growing internet company and second fastest growing company globally, as measured by organic revenue growth compared to publicly-listed profitable companies with revenue of over RMB100 billion in 2017, according to iResearch

Our Business Model

Our Company is built on innovation and efficiency. As a company founded by engineers and designers, we embrace a culture of bold innovation to push the boundaries of what technology can offer. A spirit of innovation permeates our Company and guides everything we do. In addition, we are relentless in our pursuit of efficiency. We strive to achieve cost savings to deliver value back to our users.

Our unique and powerful "triathlon" business model comprises three synergistic pillars of growth—(i) innovative, high quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail allowing for our products to be priced accessibly and (iii) engaging internet services.



Hardware

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention. For our core in-house products, we focus on designing and developing a range of cutting-edge hardware products including smartphones, laptops, smart TVs, AI speakers and smart routers.

We curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies were focused on the development of smart hardware and lifestyle products as of March 31, 2018. We had over 100 million connected devices, excluding smartphones and laptops, as of March 31, 2018. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

New Retail

Our highly efficient omni-channel new retail distribution platform is a core component of our growth strategy, allowing us to operate efficiently while simultaneously extending our user reach and

enhancing our users' experience. Since our inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with users. We were number one in terms of smartphone unit shipments online in both mainland China and India in the fourth quarter of 2017, according to IDC. Since 2015, we have significantly expanded our direct offline retail network, for example, through our self-operated Mi Home stores. Our direct offline retail capability allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

Internet Services

We provide internet services to give our users a complete mobile internet experience. In March 2018, we had approximately 190 million MAUs on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between hardware and internet services enable us to provide our users with better user experience. Furthermore, we have a proven track record of developing killer apps. In March 2018, we had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs, including our Mi App Store, Mi Browser, Mi Music and Mi Video apps. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit.

Network Effects

Our unique and powerful triathlon business model comprises three synergistic pillars that are closely connected. We strive to offer killer products that are high quality, high performance, well designed and honestly priced. These products in turn bring additional traffic to our retail channels. We deliver our products to users at accessible prices through our highly efficient new retail channels such as our e-commerce platforms and our Mi Home stores. With our internet services, we closely engage and interact with users on our platform, thus increasing user stickiness and monetization opportunities.

Cloud, Big Data and Artificial Intelligence (AI)

We believe that the sheer amount of unique consumer and behavioral data created by our platform gives us a massive advantage in the field of big data and AI. As a result, we can leverage our understanding of each user's personalized needs and habits to provide customized recommendations and further improve our monetization ability. Our unified Xiaomi account service, launched in 2012, allows our users to get access to cloud services, shop online, enjoy content and many other services we provide. With prior user consent, we have accumulated more than 230PB of proprietary data on our cloud services as of March 31, 2018. Such data is stored in compliance with strict data privacy standards and data security requirements we have in place. See section headed "—Data Privacy and Protection." Since 2016, the privacy practice of our MIUI and Mi Store has been certified by TrustArc, a privacy compliance and risk management company that conducts comprehensive assessments of privacy policy and control measures. Our proprietary deep learning and AI capabilities together with the active user engagement on our platform, empower us to continuously improve our products and services. For example, our facial recognition technology, the core of our computer vision technology, forms a positive feedback loop with our users' activities such that an increasing amount of user data further improves the precision and efficiency of our algorithm. The entire process is based solely on collected user behavioral statistics and does not involve users' data privacy. Going forward, we will continue to launch new and smarter AI-enabled technology products and services such as our AI speaker, which was launched in July 2017.

Our Global Opportunities

Since our inception in 2010, we have continually grown our user base in mainland China through our pioneering business model. We have also successfully tailored our strategy internationally to new markets and are present in 74 countries and regions as of March 31, 2018. We have successfully achieved a foothold in key international markets. For example, we ranked number one in India in terms of smartphone unit shipments in the fourth quarter of 2017 and were also the top five in 15 markets, according to IDC.

As we expand our business globally, we have been able to achieve increasing profitability as we grow our revenue. During our Track Record Period, our revenue grew from RMB66.8 billion in 2015 to RMB114.6 billion in 2017. We had an adjusted non-IFRS profit of RMB5.4 billion in 2017, compared to an adjusted non-IFRS loss of RMB0.3 billion in 2015.

OUR INDUSTRY AND COMPETITIVE LANDSCAPE

We operate in the global smartphone, consumer internet of things, internet services and new retail industries, which are highly competitive and are characterized by significant barriers to entry.

There is a large and growing base of smartphone users globally. According to IDC, the total number of smartphone devices grew from 2,871.0 million in 2015 to 3,665.7 million in 2017, representing a CAGR of 13.0%. This is expected to reach 4,798.5 million by 2022, representing a CAGR of 5.5% between 2017 and 2022. Smartphone adoption is expected to increase globally, with the growth being driven by emerging markets. Shipment volume and smartphone adoption will be driven by devices that combine accessible price points with high performance and great user experience. Furthermore, there are significant barriers to entry into the smartphone market given the high upfront costs associated with research and development and the prototyping requirements to manufacture competitive devices. Given the current entrenched position of leading smartphone companies and their well-established brand recognition in the market, stabilized supply chain and established distribution channels, it is highly unlikely that new entrants will be able to compete and gain significant market share. Market entrants need to achieve significant scale in order to realize operating leverage and develop sustainable business models.

The global consumer IoT market is expected to continue to grow exponentially as a result of the advancement in sensor and device processor technology, allowing for internet connectivity to become a more standard feature across a range of consumer products. According to iResearch, the number of consumer IoT endpoints grew from 3.0 billion in 2015 to 4.9 billion in 2017, representing a CAGR of 27.7%. This is expected to reach 15.3 billion by 2022, representing a CAGR of 25.4% between 2017 and 2022. The large and rapidly growing base of IoT devices enables the collection of a vast amount of real-time data, which in turn furthers the development of various consumer applications. A successful consumer IoT strategy requires a company to offer not only high quality and well-designed products, but also a wide range of products that can be seamlessly connected by a single app, such as Mi Home app, in order to meet users' daily needs.

The internet is an indispensable tool for individuals to engage with the world. According to iResearch, the global internet services market grew from US$1,010.6 billion in 2015 to US$1,540.4 billion in 2017, representing a CAGR of 23.5%. This is expected to reach US$2,600.9 billion by 2022, representing a CAGR of 11.0%, which is driven by increasing mobile internet penetration, as smartphones become the primary medium through which consumers access the internet. The internet services market is highly competitive and occupied by a large amount of players offering competing services. Companies that have the ability to acquire and retain users through the sale of hardware devices increase their competitiveness in terms of lower customer acquisition cost, deeper engagement with users and enhanced data collection.

New retail can be understood as the seamless integration of online and offline retail channels through technology to drive efficiency. The integration of online and offline retail channels is highly synergistic and drives customer traffic, which improves overall sales efficiency. New retail also

enhances cost efficiency through direct-to-consumer distribution via self-owned online and offline channels to reduce the need for additional distribution layers.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

- Our founders;
- Passionate users;
- Triathlon business model;
- Innovation and design;
- Efficiency;
- Ecosystem;
- Cloud, big data and AI capabilities; and
- Global.

OUR STRATEGIES

To achieve our mission and further solidify our leadership, we intend to pursue the following strategies:

- Unwavering focus on innovation, quality, design and user experience;
- Maintain relentless efficiency;
- Expand killer product offerings;
- Enrich internet services;
- Invest in and expand our ecosystem; and
- Broaden international expansion.

WEIGHTED VOTING RIGHTS STRUCTURE

The Company will have a weighted voting rights structure, effective immediately upon the completion of the **[REDACTED]**. Under this structure, the Company's share capital will comprise Class A Shares and Class B Shares. Each Class A Share will entitle the holder thereof to exercise 10 votes, and each Class B Share will entitle the holder thereof to exercise one vote, on any resolution tabled at the Company's general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.

Immediately upon the completion of the Share Subdivision and the **[REDACTED]**, the WVR Beneficiaries, being the holders of the Class A Shares, will be Lei Jun and Lin Bin. Lei Jun will beneficially own **[REDACTED]** Class A Shares, representing approximately **[REDACTED]**% of the voting rights in the Company (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre- **[REDACTED]** ESOP are not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. Lin Bin will beneficially own **[REDACTED]** Class A Shares, representing approximately **[REDACTED]**% of the voting rights in the Company (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. For further details, please see the section headed "Share Capital—Weighted Voting Rights Structure."

The Company's WVR structure will enable the WVR Beneficiaries to exercise voting control over the Company notwithstanding the WVR Beneficiaries do not hold a majority economic interest in the share capital of the Company. This allows the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control the Company with a view to its long-term prospects and strategy.

Prospective **[REDACTED]** are advised to be aware of the potential risks of **[REDACTED]** in companies with WVR structures, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a

position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions, irrespective of how other shareholders vote. Prospective **[REDACTED]** should make the decision to **[REDACTED]** in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to section headed "Risk Factors—Risks Relating to the **[REDACTED]**—The concentration of our Share ownership limits our shareholders' ability to influence corporate matters" and "Risk Factors—Risks Relating to the **[REDACTED]**—Holders of our Class A Shares may exert substantial influence over us and may not act in the best interests of our independent shareholders."

RISK FACTORS

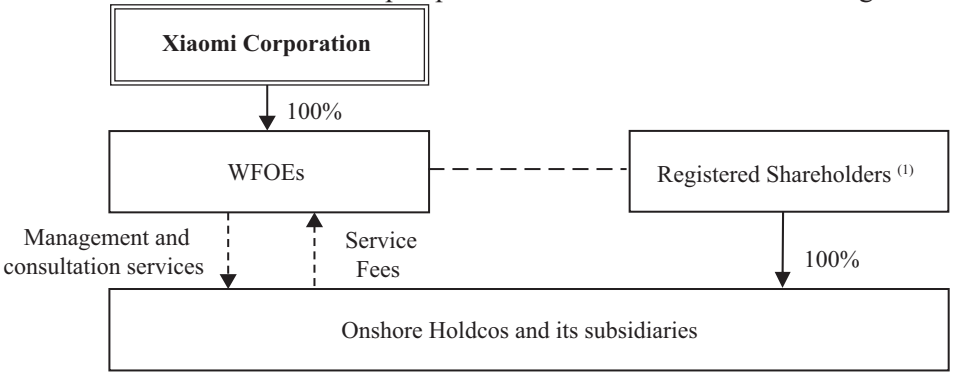
Our business and the **[REDACTED]** involve certain risks, which are set out in the section headed "Risk Factors." You should read that section in its entirety carefully before you decide to **[REDACTED]** in our Shares. Some of the major risks we face are relating to:

- our ability to compete effectively in the global markets for our products and services, which are highly competitive and subject to rapid technological changes;
- our ability to effectively manage our growth or execute our strategies;
- our ability to maintain the trusted brand image of our products and services;
- our ability to successfully manage frequent product introductions and transitions;
- our ability to grow and retain our user base, as well as user engagement;
- the fact that we have incurred losses and had a net liability position in the past and we may continue to incur losses and may not be able to declare or pay dividends in the future;
- our ability to continue our growth trend;
- our limited operating history, which makes it difficult to evaluate our future prospects;
- the significant contribution of smartphones to our revenue; and
- our ability to retain existing or attract new advertising customers, to maintain and increase our wallet share of advertising budget and to collect accounts receivable in a timely manner.

CONTRACTUAL ARRANGEMENTS

Our Company operates or may operate in certain industries that are subject to restrictions under the current laws and regulations of mainland China. In order to comply with such laws, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we control our Consolidated Affiliated Entities through the Contractual Arrangements entered into on December 1, 2017, April 11, 2018 and April 17, 2018. Hence, we do not directly own any equity interest in our Consolidated Affiliated Entities. Pursuant to the Contractual Arrangements, we have effective control over the financial and operational policies of our Consolidated Affiliated Entities and are entitled to all the economic benefits derived from the Consolidated Affiliated Entities' operations. For further details, please see section headed "Contractual Arrangements."

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements:



Notes:

(1) Registered Shareholders refer to the registered shareholders of the Onshore Holdcos, namely (i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Duokan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, and (vii) Beijing Electronic Software.
   (i) Beijing Wali Culture is owned by Lei Jun (雷軍) as to 90% and Shang Jin (尚進) as to 10%.
   (ii) Rigo Design is owned by Zhu Yin (朱印) as to 61% and Li Jiong (李炯) as to 39%.
   (iii) Xiaomi Inc. is owned by Lei Jun as to 77.80%, Li Wanqiang (黎萬强) as to 10.12%, Hong Feng (洪鋒) as to 10.07% and Liu De (劉德) as to 2.01%.
   (iv) Beijing Duokan is owned by Lei Jun as to 38.25% and Wang Chuan (王川) as to 61.75%.
   (v) Beijing Wali Internet is owned by Lei Jun as to 10%, Liu Yang (劉泱) as to 65%, Liang Qiushi (梁秋實) as to 14%, Liu Jingyan (劉景岩) as to 6%, Yuan Bin (袁彬) as to 3% and Nan Nan (南楠) as to 2%.
   (vi) Xiaomi Pictures is owned by Li Wanqiang as to 87.92%, Hong Feng as to 10.07% and Liu De as to 2.01%.
   (vii) Beijing Electronic Software is owned by Lei Jun as to 90% and Hong Feng as to 10%.

(2) "—>" denotes direct legal and beneficial ownership in the equity interest.

(3) "--->" denotes contractual relationship.

(4) "----"denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (1) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos, (2) exclusive options to acquire all or part of the equity interests in the Onshore Holdcos and (3) equity pledges over the equity interests in the Onshore Holdcos.

MOFCOM published Draft FIL in January 2015, which stipulates restriction of foreign investment in certain industry sectors on the "catalog of special administrative measures," but did not specify the businesses to be included therein. The Draft FIL also provides that entities established in mainland China but "controlled" by foreign investors will be treated as foreign invested entities, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as "controlled" by mainland China entities and/or citizens, would be treated as a mainland China domestic entity for investment purposes. As of the Latest Practicable Date, the Draft FIL was a draft only and there is no certainty whether, or timeline when, the Draft FIL will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. Please refer to the sections headed "Risk Factors—Risks Relating to Our Contractual Arrangements" and "Contractual Arrangements—Development in Mainland China Legislation on Foreign Investment" for further details.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Share Subdivision and the **[REDACTED]**, Lei Jun, our executive Director, Founder, Chairman and Chief Executive Officer, will be interested in and will control, through various intermediary entities, **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares (assuming all Preferred Shares are converted into Class B Shares upon **[REDACTED]**). Assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised, Lei Jun's aggregated shareholding will be approximately **[REDACTED]**% of our issued share capital and he will hold approximately **[REDACTED]**% of the voting rights in the Company capable of being exercised on resolutions in general meetings (except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote). Therefore, Lei Jun will be a Controlling Shareholder after the **[REDACTED]**. Lei Jun holds his interests in the Company through two wholly-owned intermediary entities being Smart Mobile Holdings Limited and Smart Player Limited. Pursuant to the Voting Proxy Agreements, certain minority shareholders have also granted Lei Jun a voting proxy over Class B Shares representing **[REDACTED]**% of the issued share capital or **[REDACTED]**% of the voting rights of the Company immediately upon completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised) in relation to resolutions other than the Reserved Matters.

For further details about our Controlling Shareholders, please refer to the section headed "Relationship with the Controlling Shareholders."

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountant's Report set out in Appendix I

to this **[REDACTED]**. The summary consolidated financial data set forth below should be read together with, and is qualified in its entirety by reference to, the consolidated financial statements in this **[REDACTED]**, including the related notes. Our consolidated financial information was prepared in accordance with IFRS.

CONSOLIDATED INCOME STATEMENTS

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Revenue	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0
Cost of sales	(64,111,325)	(96.0)	(61,184,806)	(89.4)	(99,470,537)	(86.8)
Gross profit	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2
Selling and marketing expenses	(1,912,765)	(2.9)	(3,022,313)	(4.4)	(5,231,540)	(4.6)
Administrative expenses	(766,252)	(1.1)	(926,833)	(1.4)	(1,216,110)	(1.1)
Research and development expenses	(1,511,815)	(2.3)	(2,104,226)	(3.1)	(3,151,401)	(2.7)
Fair value changes on investments measured at fair value through profit or loss	2,813,353	4.2	2,727,283	4.0	6,371,098	5.6
Share of losses of investments accounted for using the equity method	(92,781)	(0.1)	(150,445)	(0.2)	(231,496)	(0.2)
Other income	522,436	0.8	540,493	0.8	448,671	0.4
Other (losses)/gains, net	(379,439)	(0.6)	(528,250)	(0.8)	72,040	0.1
Operating profit	1,372,670	2.0	3,785,064	5.5	12,215,467	10.7
Finance (expense)/income, net	(85,867)	(0.1)	(86,246)	(0.1)	26,784	0.0
Fair value changes of convertible redeemable preferred shares	(8,759,314)	(13.1)	(2,523,309)	(3.7)	(54,071,603)	(47.2)
(Loss)/profit before income tax	(7,472,511)	(11.2)	1,175,509	1.7	(41,829,352)	(36.5)
Income tax expenses	(154,519)	(0.2)	(683,903)	(1.0)	(2,059,763)	(1.8)
(Loss)/profit for the year	(7,627,030)	(11.4)	491,606	0.7	(43,889,115)	(38.3)
Non-IFRS Measure:						
Adjusted (loss)/profit (unaudited)[1]	(303,887)	(0.5)	1,895,657	2.8	5,361,876	4.7

Note:

(1) We define non-IFRS adjusted (loss)/profit as loss or profit for the period, as adjusted by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions. Adjusted (loss)/profit is not a measure required by, or presented in accordance with, IFRS. The use of adjusted (loss)/profit has limitation as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See "Financial Information—Non-IFRS Measure: Adjusted (Loss)/Profit" for details.

The following tables set forth the reconciliations of our non-IFRS financial measure for the years ended December 31, 2017, 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

	Year Ended December 31, 2017					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/Profit for the year	(43,889,115)	54,071,603	909,155	(5,732,151)	2,384	5,361,876
Net margin	(38.3)%					4.7%

	Year Ended December 31, 2016					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/Profit for the year	491,606	2,523,309	871,230	(1,992,999)	2,511	1,895,657
Net margin	0.7%					2.8%

	Year Ended December 31, 2015					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/Profit for the year	(7,627,030)	8,759,314	690,742	(2,130,169)	3,256	(303,887)
Net margin	(11.4)%					(0.5)%

Notes:

(1) Includes fair value gains on equity investments and preferred share investments, impairment provision for investments and remeasurement of loss of significant influence in an associate, net of tax.

(2) Represents amortization of intangible assets resulting from acquisitions, net of tax.

SELECTED CONSOLIDATED BALANCE SHEET DATA

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Total non-current assets	14,184,010	20,129,283	28,731,300
Total current assets	24,952,527	30,636,318	61,138,461
Total assets	39,136,537	50,765,601	89,869,761
Total non-current liabilities	109,310,565	116,760,214	169,947,781
Total current liabilities	16,464,280	26,063,262	47,132,671
Total liabilities	125,774,845	142,823,476	217,080,452
Net liabilities	(86,638,308)	(92,057,875)	(127,210,691)
Share capital	150	150	150
Reserves	(86,714,628)	(92,191,820)	(127,272,511)
Non-controlling interests	76,170	133,795	61,670
Total equity	(86,638,308)	(92,057,875)	(127,210,691)
Total equity and liabilities	39,136,537	50,765,601	89,869,761

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS DATA

	For the year ended December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Net cash (used in)/generated from operating activities	(2,601,311)	4,531,264	(995,669)
Net cash generated from/(used in) investing activities	873,395	(3,735,267)	(2,677,714)
Net cash generated from/(used in) financing activities	568,383	(72,141)	6,214,930
Net (decrease)/increase in cash and cash equivalents	(1,159,533)	723,856	2,541,547
Cash and cash equivalents at beginning of the year	9,264,955	8,394,078	9,230,320
Effects of exchange rate changes on cash and cash equivalents	288,656	112,386	(208,585)
Cash and cash equivalents at end of the year	8,394,078	9,230,320	11,563,282

KEY RATIOS/METRICS

The following table sets forth our key ratios/metrics for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Total revenue growth (%)	N/A	2.4	67.5
Revenue growth for smartphones segment (%)	N/A	(9.2)	65.2
Number of smartphones sold (thousands)	66,546	55,419	91,410
Smartphone average selling price (RMB)	807.2	879.9	881.3
Revenue growth for IoT and lifestyle products segment (%)	N/A	42.9	88.9
Revenue of IoT and lifestyle products segment per smartphone sold (RMB)	130.6	224.0	256.5
Revenue growth for internet services segment (%)	N/A	101.8	51.4
End-of-the-period MIUI MAUs (millions)	112.2	134.8	170.8
Average internet services revenue per user[(1)] (RMB)	28.9	48.5	57.9
Gross margin for hardware[(2)] (%)	(0.2)	4.4	8.7
Gross margin for internet services segment (%)	64.2	64.4	60.2
Non-IFRS adjusted (loss)/profit[(3)] (RMB in thousands)	(303,887)	1,895,657	5,361,876
Non-IFRS net margin[(4)] (%)	(0.5)	2.8	4.7
Cash conversion cycle[(5)] (days)	(20)	(35)	(38)

Notes:

(1) Calculated as revenue for the internet services segment divided by end-of-the-period MIUI MAUs.

(2) Gross margin for hardware equals the sum of the gross profit for the smartphone segment and the IoT and lifestyle products segment divided by the total revenue from these two segments for the period indicated and multiplied by 100%.

(3) We define non-IFRS adjusted (loss)/profit as loss or profit for the period, as adjusted by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions.

(4) Represents non-IFRS adjusted (loss)/profit divided by the total revenue for the period indicated.

(5) Cash conversion cycle equals inventory turnover days, plus trade receivables turnover days, minus trade payables turnover days.

[REDACTED]

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. Chinese laws require that dividends be paid only out of the profit for the year calculated according to Chinese accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. Chinese laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises' registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

[REDACTED]

RECENT DEVELOPMENTS

Since the end of the Track Record Period and up to the date of this **[REDACTED]**, we have experienced significant revenue growth. We plan to continue to launch new products and services and expand internationally.

On April 2, 2018, we issued 63,959,619 Class B Shares (or **[REDACTED]** Class B Shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity controlled by Lei Jun, to reward Lei Jun for his contributions to our Company.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirm that, up to the date of this **[REDACTED]**, except as disclosed above, there has been no material adverse change in our financial or trading position or prospects since December 31, 2017, being the end date of the periods reported on in the Accountant's Report in Appendix I to this **[REDACTED]**, and there is no event since December 31, 2017 that would materially affect the information as set out in the Accountant's Report in Appendix I to this **[REDACTED]**.

[REDACTED]

[REDACTED]

USE OF [REDACTED]

We estimate that we will receive **[REDACTED]** from the **[REDACTED]** of approximately HK$**[REDACTED]** after deducting the **[REDACTED]** and other estimated expenses paid and payable by us in relation to the **[REDACTED]** and taking into account **[REDACTED]**, assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the mid-point of the indicative **[REDACTED]** range of HK$**[REDACTED]** to HK$**[REDACTED]** per Share. We intend to use the **[REDACTED]** we will receive from this **[REDACTED]** for the following purposes:

- approximately 30% (approximately HK$**[REDACTED]**) for research and development as well as other efforts to develop our core in-house products, including our smartphones, smart TVs, laptops, AI speakers and smart routers;
- approximately 30% (approximately HK$**[REDACTED]**) for investments to expand and strengthen our ecosystem primarily in the fields of IoT and lifestyle products and mobile internet services, including AI;
- approximately 30% (approximately HK$**[REDACTED]**) for our global expansion; and
- approximately 10% (approximately HK$**[REDACTED]**) for working capital and general corporate purposes.

In the event that the **[REDACTED]** is set at the high point or the low point of the indicative **[REDACTED]** range, the **[REDACTED]** of the **[REDACTED]** will increase or decrease by approximately HK$**[REDACTED]**, respectively. Under such circumstances, we will increase or decrease the allocation of the **[REDACTED]** to the above purposes on a pro-rata basis.

[We will not receive **[REDACTED]** if the **[REDACTED]** is exercised. If the **[REDACTED]** is exercised in full, the **[REDACTED]** will receive the **[REDACTED]** for up to **[REDACTED]** additional **[REDACTED]** to be sold and transferred upon the exercise of the **[REDACTED]**.]

In this **[REDACTED]**, *unless the context otherwise requires, the following terms shall have the following meanings. Certain technical terms are explained in the section headed "Glossary of Technical Terms."*

"affiliate"	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
	[REDACTED]
"Articles" or "Articles of Association"	the articles of association of the Company adopted on **[REDACTED]** with effect from **[REDACTED]**, as amended from time to time, a summary of which is set out in the section headed "Summary of the Constitution of the Company and Cayman Companies Law" in Appendix III
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Digital Technology"	Beijing Xiaomi Digital Technology Co., Ltd.* (北京小米數碼科技有限公司), a limited liability company established under the laws of mainland China on December 21, 2010 and our indirect wholly-owned subsidiary
"Beijing Duokan"	Beijing Duokan Technology Co., Ltd.* (北京多看科技有限公司), a limited liability company established under the laws of mainland China on February 10, 2010 and our Consolidated Affiliated Entity
"Beijing Electronic Software"	Beijing Xiaomi Electronic Software Co., Ltd.* (北京小米電子軟件技術有限公司), a limited liability company established under the laws of mainland China on July 1, 2014 and our Consolidated Affiliated Entity
"Beijing Wali"	Wali Information Technologies (Beijing) Ltd.* (瓦力信息技術（北京）有限公司), a limited liability company established under the laws of mainland China on February 22, 2010 and our indirect wholly-owned subsidiary
"Beijing Wali Culture"	Beijing Wali Culture Communication Co., Ltd.* (北京瓦力文化傳播有限公司), a limited liability company established under the laws of mainland China on May 8, 2014 and our Consolidated Affiliated Entity
"Beijing Wali Internet"	Beijing Wali Internet Technologies Co., Ltd.* (北京瓦力網絡科技有限公司), a limited liability company established under the laws of mainland China on June 1, 2009 and our Consolidated Affiliated Entity

"Beijing Wenmi"	Beijing Wenmi Culture Co., Ltd.* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our indirect wholly-owned subsidiary
"Board"	the board of Directors
"Brazil"	the Federative Republic of Brazil
"business day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemented from time to time
"Cayman Registrar"	the Registrar of Companies of the Cayman Islands
	[REDACTED]
"Chongqing Microcredit"	Chongqing Xiaomi Microcredit Co., Ltd.* (重慶市小米小額貸款有限公司), a limited liability company established under the laws of mainland China on June 12, 2015 and our indirect wholly-owned subsidiary
"Class A Shares"	class A ordinary shares in the share capital of the Company with a par value of US$**[REDACTED]** each following the Share Subdivision, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled

	to ten votes per share on any resolution tabled at the Company's general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
"Class B Shares"	class B ordinary shares in the share capital of the Company with a par value of US$**[REDACTED]** each following the Share Subdivision, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings
"Co-founders"	Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company," "our Company," or "the Company"	Xiaomi Corporation 小米集团, (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Consolidated Affiliated Entities"	the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries (each a "**Consolidated Affiliated Entity**"), details of which are set out in the section headed "History, Reorganization and Corporate Structure"
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interest in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited, details of which are set out in the section headed "Relationship with the Controlling Shareholders"
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)

"Director(s)"	the director(s) of the Company
"Existing Articles"	the fifteenth amended and restated memorandum and articles of association of the Company adopted by special resolution of the Shareholders passed on August 24, 2017
"Founders"	our Founder, Lei Jun, and the seven Co-founders being Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping, collectively
	[REDACTED]
"Group," "our Group," "the Group," "we," "us," or "our"	the Company and its subsidiaries and Consolidated Affiliated Entities from time to time
	[REDACTED]
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
	[REDACTED]
"Hong Kong Securities and Futures Ordinance" or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited

[REDACTED]

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"IDC"	IDC Consulting (Beijing) Ltd., an industry consultant
"IDR"	Indonesian Rupiah, the lawful currency of Indonesia
"IFRS"	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
"Independent Third Party(ies)"	person(s) or company(ies) which, to the best of our Directors' knowledge having made all due and careful enquiries, is/are not connected (within the meaning of the Listing Rules) with our Company
"India"	the Republic of India
"Indonesia"	the Republic of Indonesia
"INR"	Indian Rupee, the lawful currency of India

[REDACTED]

	[REDACTED]
"iResearch"	Shanghai iResearch Co., Ltd, China, an industry consultant
	[REDACTED]
"Joint Sponsors"	CLSA Capital Markets Limited, Goldman Sachs (Asia) L.L.C. and Morgan Stanley Asia Limited
"Latest Practicable Date"	[April 23], 2018, being the latest practicable date for ascertaining certain information in this **[REDACTED]** before its publication
	[REDACTED]
"Listing Committee"	the Listing Committee of the Stock Exchange
	[REDACTED]
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the memorandum of association of the Company adopted on [●] 2018 as amended from time to time, a summary of which is set out in the section headed "Summary of the Constitution of the Company and Cayman Companies Law" in Appendix III

"Mi Store"	as to our online marketplace available on Mi. com and mi mobile application
"MOFCOM"	Ministry of Commerce of the People's Republic of China (中華人民共和國商務部)
	[REDACTED]
"Onshore Holdcos," each a "Onshore Holdco"	Beijing Duokan, Beijing Electronic Software, Beijing Wali Culture, Beijing Wali Internet, Rigo Design, Xiaomi Inc. and Xiaomi Pictures
	[REDACTED]
"Philippines"	the Republic of the Philippines
"Pinecone International"	Pinecone International Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on November 7, 2014 and our indirect wholly-owned subsidiary
"Pinecone Share Option Scheme I"	the share option scheme adopted by Pinecone International Limited on July 30, 2015 as amended from time to time, the principal terms of which are set out in the section headed "Statutory and General Information—Share Option Schemes—Pinecone Share Option Scheme I" in Appendix IV

"Pinecone Share Option Scheme II"	the share option scheme adopted by Pinecone International Limited on [●] 2018 as amended from time to time, the principal terms of which are set out in the section headed "Statutory and General Information—Share Option Schemes—Pinecone Share Option Scheme II" in Appendix IV
"Post-[REDACTED] ESOP"	the post-**[REDACTED]** share option scheme adopted by the Company on [●], 2018, the principal terms of which are set out in the section headed "Statutory and General Information—Share Option Schemes—Post-**[REDACTED]** ESOP" in Appendix IV
"Preferred Share(s)"	the Series A Preferred Shares, the Series B Preferred Shares, the Series C Preferred Shares, the Series D Preferred Shares, the Series E Preferred Shares and the Series F Preferred Shares
"Pre-[REDACTED] ESOP"	the pre-**[REDACTED]** employee stock incentive scheme adopted by the Company dated May 5, 2011 and superseded on August 24, 2012 as amended from time to time, the principal terms of which are set out in the section headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" in Appendix IV
"Pre-[REDACTED] Investment(s)"	the pre-**[REDACTED]** investment(s) in the Company undertaken by the Pre-**[REDACTED]** Investors pursuant to the Pre-**[REDACTED]** Shareholders' Agreements, details of which are set out in the section headed "History, Reorganization and Corporate Structure"
"Pre-[REDACTED] Investor(s)"	All-Stars XMI Limited, Apoletto China I, L.P., Apoletto China II, L.P., Apoletto China III, L.P., Apoletto China IV, L.P., Apoletto Investment II, L.P., Apoletto Limited, Binghe Age Group Corporation, Bridge Street 2015, L.P., Bright Inspiration Holdings Limited, Broad Street Principal Investments, L.L.C., CCDD International Holdings Limited, Celia Safe Inc., China TMT Holding I Limited, China TMT Holding II Limited, Circle Creek Investments Limited, Colorful Mi Limited, Dragoneer Global Fund II, L.P., Duke King Holdings Limited, Evertide Limited, Fast Sino Holdings Limited, Gamnat Pte. Ltd., Gifted Jade Limited, Hans Tung, HOPU Gioura Company Limited, IDG-Accel China Growth Fund II L.P., IDG-Accel China Investors II L.P., JONGMI Limited, Kawa Investments LLC, Long Great Holdings Limited, Matrix Partners China I, L.P., Matrix Partners China I-A, L.P., MBD 2015, L.P., Mecca International (BVI) Limited, Mifans Investment LLC, Mirodesign Limited, Morningside China TMT Fund I, L.P., Morningside China TMT Fund II, L.P.,

	Moussedragon, L.P., Nokia Growth Partners II, L.P., Patrick Raymon MC Goldrick, Powerful Era Limited, Qiming Managing Directors Fund II, L.P., Qiming Venture Partners II, L.P., Qiming Venture Partners II-C, L.P., Qualcomm Incorporated, RNT Associates International Pte. Ltd., Robin Hon Bun Chan, 2015 Employee Offshore Aggregator, L.P., 2020 Investment Partners Limited, Sennett Investments (Mauritius) Ptd Ltd., Shiny Stone Limited, Shunwei Ventures Limited, Sinarmas Digital Ventures (HK) Limited, Smart Promise Limited, Smart System Investment Fund, L.P., Stone Street 2015, L.P., Techline Investment Pte Ltd, Wali International Holdings Ltd., and Wealth Plus Investments Limited
"Pre-[REDACTED] Shareholders' Agreement"	the eleventh amended and restated shareholders' agreement entered into between, among others, the Company, certain Group companies, the Founder, the Co-founders and the Pre-**[REDACTED]** Investors dated July 3, 2015
	[REDACTED]
"Principal Share Registrar and Transfer Office"	Maples Corporate Services Limited
	[REDACTED]
"QIB"	a qualified institutional buyer within the meaning of Rule 144A
"Registered Shareholders"	the registered shareholders of the Onshore Holdcos, more particularly set out in the section headed "Contractual Arrangements"
"Regulation S"	Regulation S under the U.S. Securities Act
"Reserved Matters"	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being: (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment

	or removal of the Company's auditors, and (iv) the voluntary liquidation or winding-up of the Company
"Rigo Design"	Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計(北京)有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity
"RMB" or "Renminbi"	Renminbi, the lawful currency of mainland China
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	the State Administration of Foreign Exchange of the People's Republic of China (中華人民共和國國家外匯管理局)
"SEC"	the Securities and Exchange Commission of the United States
	[REDACTED]
"Series A Preferred Share Shareholder(s)"	the holder(s) of the Series A Preferred Shares
"Series A Preferred Share(s)"	the series A preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 392,591,302 shares are in issue as of the Latest Practicable Date and held by the Series A Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series B Preferred Share Shareholder(s)"	the holder(s) of the Series B Preferred Shares
"Series B Preferred Share(s)"	the Series B-1 Preferred Shares and the Series B-2 Preferred Shares
"Series B-1 Preferred Share(s)"	the series B-1 preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 221,156,910 shares were in issue as of the Latest Practicable Date and held by the Series B Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series B-2 Preferred Share(s)"	the series B-2 preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 33,049,592 shares were in issue as of the Latest Practicable Date and held by the Series B Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement

"Series C Preferred Share Shareholder(s)"	the holder(s) of the Series C Preferred Shares
"Series C Preferred Share(s)"	the series C preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 172,094,348 shares were in issue as of the Latest Practicable Date and held by the Series C Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series D Preferred Share Shareholder(s)"	the holder(s) of the Series D Preferred Shares
"Series D Preferred Share(s)"	the series D preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 102,127,680 shares were in issue as of the Latest Practicable Date and held by the Series D Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series E Preferred Share Shareholder(s)"	the holder(s) of the Series E Preferred Shares
"Series E Preferred Share(s)"	the Series E-1 Preferred Shares and the Series E-2 Preferred Shares
"Series E-1 Preferred Share(s)"	the series E-1 preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 21,277,676 shares were in issue as of the Latest Practicable Date and held by the Series E Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series E-2 Preferred Share(s)"	the series E-2 preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 51,031,512 shares were in issue as of the Latest Practicable Date and held by the Series E Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series F Preferred Share Shareholder(s)"	the holder(s) of the Series F Preferred Shares
"Series F Preferred Share(s)"	the Series F-1 Preferred Shares and the Series F-2 Preferred Shares

"Series F-1 Preferred Share(s)"	the series F-1 preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which 48,787,104 shares were in issue as of the Latest Practicable Date and held by the Series F Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"Series F-2 Preferred Share(s)"	the series F-2 preferred shares of par value US$0.000025 per share in the authorized share capital of the Company, of which **[REDACTED]** shares were in issue as of the Latest Practicable Date and held by the Series F Preferred Share Shareholders, each having the rights, preferences, privileges and restrictions as set forth in the Pre-**[REDACTED]** Shareholders' Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"Share(s)"	the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires
"Share Subdivision"	the subdivision of each issued and unissued class A ordinary share of US$0.000025 par value each of the Company and class B ordinary share of US$0.000025 par value each of the Company into **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares, respectively, to be effected following the reclassification and re-designation of all the issued and unissued Preferred Shares into class B ordinary shares of US$0.000025 par value each of the Company, on the **[REDACTED]** and prior to **[REDACTED]**, the details of which are set out in the section headed "History, Reorganization and Corporate Structure—Share Subdivision"
"Shareholder(s)"	holder(s) of the Share(s)
"Singapore"	the Republic of Singapore
	[REDACTED]
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Takeovers Code"	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time

"Tianjin Commercial Factoring"	Xiaomi Commercial Factoring (Tianjin) Co., Ltd.* (小米商業保理（天津）有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary
"Timi Computing"	Timi Personal Computing (Hong Kong) Limited* (北京田米科技（香港）有限公司) a limited liability company incorporated under the laws of Hong Kong on April 4, 2016 and our indirect wholly-owned subsidiary
"Track Record Period"	the three financial years ended December 31, 2015, 2016 and 2017
"U.S. Securities Act"	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
	[REDACTED]
"United States," "U.S." or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars," "U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"VIE(s)"	variable interest entity(ies)
"Voting Proxy Agreements"	the voting proxy agreements executed in favor of Lei Jun by each of [●] in [●] 2018, pursuant to which Lei Jun has been granted a voting proxy over certain Class B Shares held by the relevant Shareholders
"weighted voting rights"	has the meaning ascribed to it in the Listing Rules
"WFOEs," each a "WFOE"	Beijing Baien, Beijing Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications
	[REDACTED]

"WVR Beneficiaries"	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and Lin Bin, being the holders of the Class A Shares, entitling each to weighted voting rights, details of which are set out in the section headed "Share Captial"
"WVR structure"	has the meaning ascribed to it in the Listing Rules
"Xiaomi Communications"	Xiaomi Communications Co., Ltd* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary
"Xiaomi Finance Group"	Xiaomi Finance and its subsidiaries and Consolidated Affiliated Entities from time to time
"Xiaomi Finance HK"	Xiaomi Finance H.K. Limited 小米金融（香港）有限公司, a limited liability company incorporated under the laws of Hong Kong on Apirl 17, 2015 and our indirect wholly-owned subsidiary
"Xiaomi Finance"	Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary
"Xiaomi HK"	Xiaomi H.K. Limited, a limited liability company incorporated under the laws of Hong Kong on April 7, 2010 and our direct wholly-owned subsidiary
"Xiaomi Inc."	Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland China on March 3, 2010 and our Consolidated Affiliated Entity
"Xiaomi India Technology"	Xiaomi Technology India Private Limited, a limited liability company incorporated under the laws of India on October 7, 2014 and our indirect wholly-owned subsidiary
"Xiaomi Mobile Software"	Beijing Xiaomi Mobile Software Co., Ltd.* (北京小米移動軟件有限公司), a limited liability company established under the laws of mainland China on May 8, 2012 and our indirect wholly-owned subsidiary
"Xiaomi Pictures"	Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity
"Xiaomi Singapore"	Xiaomi Singapore Pte. Ltd., a limited liability company incorporated under the laws of Singapore on December 23, 2013 and our direct wholly-owned subsidiary

"XM Group"	our Group (other than the Xiaomi Finance Group)
"XMF Restructuring"	the intra-group restructuring of our finance related business, details of which are set out in "History, Reorganization and Corporate Structure—Restructuring of Our Finance Related Business"
"XMF Restructuring Loans"	the one-off loans amounting to approximately US$830 million and RMB299 million, respectively, as of the Latest Practicable Day advanced by the XM Group to the Xiaomi Finance Group in connection with the XMF Restructuring
"XMF Share Option Scheme I"	the first share option scheme adopted by Xiaomi Finance on [●], 2018, as amended from time to time, the principal terms of which are set out in the section headed "Statutory and General Information—Share Option Schemes—XMF Share Option Scheme I" in Appendix IV
"XMF Share Option Scheme II"	the second share option scheme adopted by Xiaomi Finance on [●], 2018, the principal terms of which are set out in the section headed "Statutory and General Information—Share Option Schemes—XMF Share Option Scheme II" in Appendix IV
"XMF Share Option Schemes"	the XMF Share Option Scheme I and the XMF Share Option Scheme II
"Zhuhai Communications"	Zhuhai Xiaomi Communications Co., Ltd.* (珠海小米通訊技術有限公司), a limited liability company established under the laws of mainland China on January 25, 2013 and our indirect wholly-owned subsidiary
"%"	per cent

* *For identification purposes only.*

Unless otherwise expressly stated or the context otherwise requires, all data in this **[REDACTED]** *is as of the date of this* **[REDACTED]**.

The English names of the entities of mainland China, laws or regulations of mainland China, and the governmental authorities of mainland China referred to in this **[REDACTED]** *are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.*

Certain amounts and percentage figures included in this **[REDACTED]** *have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains definitions of certain terms used in this document in connection with our Company and our business. Some of these may not correspond to standard industry definitions.

3C	computers, communications and consumer electronics
AI	artificial intelligence, the science of researching and developing theories, methods, technologies, and application systems that simulate and extend human intelligence
Annual Singles' Day shopping festival	the annual online shopping promotion event in mainland China on November 11
app	a computer program designed to run on smartphones and other mobile devices
beta testing	the second and usually last phase of software or hardware testing in which a sampling of the intended audience test the product for its performance in real world exposure
big data	large and diverse data sets able to uncover hidden patterns, unknown correlations, market trends, customer preferences and other useful information assets under new processing model for greater decision-making power, insight and processing optimization capabilities
bokeh effect	in photography, refers to the aesthetic quality of the blur produced in the out-of-focus parts of an image
cloud-based system	system of applications, services or resources made available to users on demand via internet from a cloud computing provider's server
CADR	clean air delivery rate, the rate to measure the volume of filtered air delivered by an air cleaner, in cubic feet per minute
DRAM	dynamic random access memory, a type of random access memory that stores each bit of data on a separate capacitor
GMV	gross merchandise volume, the total value of merchandise sold in a specified market or through a specified platform during a given period
IaaS	Infrastructure as a service, a standardized, highly automated offering, where compute resources, combined with networking and storage capabilities are owned and hosted by a service provider and offered to customers on-demand

GLOSSARY OF TECHNICAL TERMS

IoT	internet of things, the network of physical devices with information-sensing capabilities such as two-dimensional code reading, radio frequency identification (RFID), infrared sensors, global positioning systems and laser scanners to realize intelligent identification, positioning, tracking, monitoring and management
IP	intellectual property
ICP license	value-added telecommunications service operating license for internet information services
ISMS	information security management system, our proprietary information security system designed to protect user information
LDS	laser distance sensor, sensor with laser technology for non-contact distance measurement
LED display	a flat panel display using an array of light-emitting diodes as pixels for a video display
MAU	monthly active users, the number of devices that activate the app or operating system at least once during a given calendar month and, in the context of MIUI forum, refers to the number of registered users logging in our MIUI forum at least once during a given calendar month; when calculating MAU, for MIUI, the number of days in a given month is a variable depending on the number of days in the particular calendar month; and in all other contexts, the number of days in a month is set at 30
NAND	NAND flash memory, a type of non-volatile storage technology that does not require power in order to retain data
OLED display	organic light emitting diodes display utilizing flat light emitting technology to reduce the thickness and weight of the display
PaaS	Platform as a service, a category of cloud computing services that provides a platform allowing customers to develop, run, and manage apps without the complexity of building and maintaining the infrastructure typically associated with developing and launching an app
PB	petabyte, a multiple of the unit byte for digital information with 1 petabyte equal to 10^{15} bytes
RO	reverse osmosis, a water purification technology that uses a semipermeable membrane to remove ions, molecules and large particles from drinking water
SKU	stock keeping unit

SLAM	simultaneous localization and mapping, a computational algorithm of constructing or updating a map of an unknown environment while simultaneously keeping track of an agent's location within it
System-on-Chip (SoC)	a circuit that integrates all components of a computer or other electronic systems

FORWARD-LOOKING STATEMENTS

Certain statements in this **[REDACTED]** are forward looking statements that are, by their nature, subject to significant risks and uncertainties. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will," "expect," "anticipate," "estimate," "believe," "going forward," "ought to," "may," "seek," "should," "intend," "plan," "projection," "could," "vision," "goals," "aim," "aspire," "objective," "target," "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including but not limited to the risk factors detailed in this **[REDACTED]**), uncertainties and other factors some of which are beyond our Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- our operations and business prospects;
- our business and operating strategies and our ability to implement such strategies;
- our ability to develop and manage our operations and business;
- competition for, among other things, capital, technology and skilled personnel;
- our ability to control costs;
- our dividend policy;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate; and
- all other risks and uncertainties described in the section headed "Risk Factors."

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, we strongly caution investors against placing undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by the Listing Rules, we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. Statements of or references to our intentions or those of any of our Directors are made as of the date of this **[REDACTED]**. Any such intentions may change in light of future developments.

All forward-looking statements in this **[REDACTED]** are expressly qualified by reference to this cautionary statement.

You should carefully consider all of the information in this document, including the following risk factors before making any **[REDACTED]** *decision in relation to the* **[REDACTED]**. *Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The market price of the* **[REDACTED]** *could fall significantly due to any of these risks, and you may lose all or part of your* **[REDACTED]**.

We believe that there are certain risks involved in our operations, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in mainland China; (iii) risks relating to our Contractual Arrangements; and (iv) risks relating to the **[REDACTED]**. Additional risks and uncertainties that are presently not known to us or not expressed or implied below or that we currently deem immaterial could also harm our business, financial condition and operating results. You should consider our business and prospects in light of the challenges we face, including the ones discussed in this section.

Risks Relating to Our Business and Industry

Global markets for our products and services are highly competitive and subject to rapid technological changes, and we may be unable to compete effectively in these markets.

Our products and services compete in highly competitive global markets characterized by aggressive price competition, frequent introduction of new products, short product life cycles, evolving industry standards, continuous improvement in product price and performance characteristics, rapid adoption of technological and product advancements by competitors and price sensitivity and preference on the part of consumers.

Our ability to compete successfully depends heavily on our ability to continue to introduce innovative new products, services and technologies in a timely manner to the marketplace. We design and develop a number of our key hardware products, our MIUI proprietary operating system, numerous software applications and related services. Our capability to introduce new or enhanced products, services and technologies in turn depend on a number of factors, including timely and successful research and development efforts by us as well as our ecosystem partners. As a result, we must make significant investments in research and development. The research and development process of new products, services and technologies is complex, time-consuming and costly, and the result is unpredictable. Given the complexity, we could experience delays in completing the development and introduction of new and enhanced products, services and technologies in the future. Our research and development efforts may not yield the benefits we expect to achieve at all after we dedicate our time and resources into it. If we are unable to continue to develop, sell and offer innovative new products and services, or if competitors infringe on our intellectual property, our ability to maintain a competitive advantage could be adversely affected.

We face substantial competition from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships. Additionally, we face significant competition as competitors reduce their selling prices and have always attempted to produce products that imitate our product features and applications or, alternatively, collaborate among themselves to offer solutions that are more competitive than those they currently offer. Some of our competitors have greater experience, brand recognition, product breadth and distribution channels than us. The current competitors and new entrants may also seek to

develop new product and service offerings, technologies or capabilities that could render many of the products and services that we offer obsolete or less competitive, and some of them may adopt more aggressive pricing policies or devote greater resources to marketing and promotional campaigns than us. The occurrence of any of these circumstances may hinder our growth and our ability to compete and reduce our market share. As a result, our business, results of operations, financial condition and prospects would be materially and adversely affected.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected.

Our business has grown substantially in recent years, and we expect continued growth in our business, revenues and number of employees. In addition, as we increase our product and service offerings, we will need to work with a larger number of partners efficiently and maintain and expand mutually-beneficial relationships with our existing and new partners. We also need to continuously enhance and upgrade our infrastructure and technology, improve control over our operational, financial and management aspects, strengthen our supplier and distributor management, refine our reporting systems and procedures, and expand, train and manage our growing employee base. All these efforts will require significant managerial, financial and human resources. We cannot assure you that we will be able to effectively manage our growth, that our current infrastructure, systems, procedures and controls or any new measures to enhance them will be adequate and successful to support our expanding operations or that our strategies and new business initiatives will be executed successfully. If we are not able to manage our growth or execute our strategies effectively, our expansion may not be successful and our business and prospects may be materially and adversely affected.

Maintaining the trusted brand image of our products and services is critical to our success, and any failure to do so could severely damage our reputation and brand, which would have a material adverse effect on our business, financial condition and results of operations.

We have established a strong brand name and reputation for our products and services globally, especially in mainland China and other markets such as India. Any loss of trust in our products and services could harm the value of our brand, which could materially reduce our revenue and profitability. Our ability to maintain our position as a trusted brand for hardware products and internet services is based in large part upon:

- the quality, design and accessible pricing that we offer;
- providing a compelling shopping experience to our users;
- user satisfaction with our products and services;
- increase brand awareness through marketing and brand promotion activities; and
- preserve our reputation and goodwill in the event of any negative publicity on product quality, service, price or authenticity, or other issues affecting us or other internet companies.

Any public perception that our products and services are defective or otherwise unsatisfactory, even if factually incorrect or based on isolated incidents, could damage our reputation, diminish the value of our brand, undermine the trust and credibility we have established and have a negative impact on our ability to attract new users or retain our current users. If we are unable to maintain our reputation, enhance our brand recognition or increase positive awareness of our products and services,

it may be difficult to maintain and grow our user base, and our business and growth prospects may be materially and adversely affected.

If we fail to successfully manage frequent product introductions and transitions, we may not remain competitive or be able to stimulate customer demand.

Due to the highly volatile and competitive nature of the industries in which we compete, we must continually introduce new products, services and technologies, improve existing products and services, effectively stimulate customer demand for new and upgraded products and successfully manage the transition to these new and upgraded products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, our ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction. Accordingly, we cannot determine in advance the ultimate effect of new product introductions and transitions. In addition, rapid technological development and advancements may render smartphones in the common forms and with the common functionalities that are generally available to consumers today outdated or obsolete, and emerging products and services may substitute smartphones as consumers generally know them today. In such event, we cannot assure you that we will be able to develop and introduce new forms of products, services and technologies to the markets in a timely manner, or at all, that would allow us to maintain or strengthen our leadership position in our industry. Failure to do so, or to generally stay abreast of the latest technological evolutions, could materially and adversely impact our business operations, prospects and financial performance.

If we fail to grow or retain our user base, or if user engagement ceases to grow or declines, our business and operating results may be materially and adversely affected.

The size of our user base and the level of user engagement are critical to our success. Our business has been depending and will continue to significantly depend on our users and their loyalty in and level of engagement with our products and services. If users no longer view our products and services as useful and attractive as compared to competing offerings, we may not be able to increase or maintain our user base and the level of user engagement. A number of factors could negatively affect user growth, retention and engagement, including:

- despite our continual research, monitoring and analysis of user needs, we may be unable to identify and meet evolving user demands;
- we may not be able to timely develop and introduce new or updated products and services, or the new or updated products and services we introduce may not be favorably received by users;
- we may fail to update existing technology or develop new technology in time to stay ahead or abreast of market advances;
- we may not be able to continue to successfully drive organic growth of users through word-of-mouth referrals and in-app cross-promotion, which may cause the growth of our user base to slow down or stall or require us to increase our promotion and advertising spending or devote more additional resources to acquire users;

- we may be unable to prevent or combat inappropriate use of our products and services, which may lead to negative public perception of us and damage our brand or reputation;
- we may encounter technical or other problems that prevent our products and services from operating in a smooth and reliable manner or otherwise adversely affect user experience;
- our competitors may launch or develop similar or disruptive products and services with better user experience, which may result in loss of existing users or decline in new user growth;
- we may fail to address user concerns related to privacy and communication, data safety, security or other factors; and
- we may be compelled to modify our products and services to address requirements imposed by legislation, regulations, government policies or requests from government authorities in manners that may compromise user experience.

We have incurred losses and had a net liability position in the past. We may continue to incur losses and may not be able to declare or pay dividends in the future.

During the Track Record Period, we incurred a loss of RMB7.6 billion, generated a profit of RMB491.6 million and incurred a loss of RMB43.9 billion in 2015, 2016 and 2017, respectively. Excluding the impacts of (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions, we had adjusted non-IFRS loss of RMB303.9 million in 2015, and adjusted non-IFRS profit of RMB1,895.7 million and RMB5,361.9 million in 2016 and 2017, respectively. We cannot assure you that we will be able to generate profits in the future. In addition, we expect our costs and expenses to increase in absolute amounts in the future due to (i) the continued expansion of our business operations, user base and distribution network, (ii) the continued investment in technology infrastructure and network, (iii) increasing selling and marketing expenses as we continue to expand our user base, and (iv) the launch of new and additional products and services, which may incur upfront costs, change our existing revenue and cost structures, and delay the time for us to achieve profitability. If we fail to maintain or increase our operational margin, we may continue to incur losses in the future.

As of December 31, 2017, we had net liabilities of RMB127.2 billion and accumulated losses of RMB129.0 billion, mainly because we incurred significant fair value losses of convertible redeemable preferred shares. The convertible redeemable preferred shares are designated as liabilities on the consolidated balance sheets; and the increases in fair value are recognized as fair value loss on the consolidated income statement. We will not incur any fair value loss following the **[REDACTED]** as all our convertible redeemable preferred shares will be converted into our ordinary shares upon the **[REDACTED]**, but we may still retain accumulated losses due to the fair value loss of our convertible redeemable preferred shares prior to the **[REDACTED]**. Under the laws of the Cayman Islands, we may only declare dividends out of profits or our share premium account. Therefore, such accumulated losses may adversely affect our overall ability to declare and pay dividend after the **[REDACTED]** by reducing our sources for potential dividend declaration and payment.

We may not be able to sustain our historical growth.

We have experienced rapid growth since we commenced our business in 2010. During our Track Record Period, our total revenues increased from RMB66.8 billion in 2015 to RMB68.4 billion

in 2016, and further increased to RMB114.6 billion in 2017. However, there is no assurance that we will be able to maintain our historical growth in future periods. Our revenue growth may slow or our revenues may decline for any number of possible reasons, including decreasing consumer spending, increasing competition, slowing growth of the retail or online retail industry, supply and production bottlenecks, emergence of alternative business models, changes in government policies or general economic conditions. If our growth declines, **[REDACTED]**' perceptions of our business and business prospects may be adversely affected and the market price of our Shares could decline.

We have a limited operating history, which makes it difficult to evaluate our future prospects.

We began operations in 2010. Our relatively short operating history makes it difficult to assess our future prospects or forecast our future results. Our users and business partners may not fully understand the value of our products and services, and potential new users and business partners may have difficulty in distinguishing our products and services from those of our competitors. If we fail to convince users and business partners of the value of our products and services, the markets for our products and services do not continue to develop as we expect or we fail to address the needs of the dynamic, evolving industries in which we operate, our business may be materially and adversely affected.

We have a limited track record in monetizing our user base by providing internet services, and we have been mindful about prioritizing our user experience while designing our monetization initiatives. Internet services segment accounted for 4.9%, 9.6% and 8.6%, respectively, of our total revenues in 2015, 2016 and 2017, respectively. We currently generate internet services revenues primarily from advertising services and internet value-added services, which mainly include games. If our internet initiatives do not enhance our ability to monetize our existing services and users, or enable us to develop new approaches to monetization, we may not be able to maintain or increase our internet service revenues and profits or recover any associated costs. In addition, we may in the future introduce new services to further diversify our internet service revenue streams, including services with which we have little or no prior development or operating experience. If these new or enhanced services fail to engage users, customers or platform partners, our business and operating results may suffer as a result.

Smartphone sales account for a majority of our revenue, and any decrease in such sales or any increase in the costs associated with such sales may materially and adversely affect our business.

A majority of our revenue over the Track Record Period was derived from smartphone sales. For the years ended December 31, 2015, 2016 and 2017, our smartphones segment contributed 80.4%, 71.3% and 70.3% of our total revenues, respectively. Although we have substantially derived our revenue from smartphone sales, we intend to further diversify our revenue streams by expanding our internet services, as well as the sale of IoT and lifestyle products. However, if our revenue diversification efforts do not succeed as we anticipate, we may continue to heavily rely on smartphone sales for a significant portion of our revenues. A decrease in the sales volume of our smartphones or their prices, changing user preferences or material quality issues concerning our smartphones may materially and adversely affect our business and operating results. Furthermore, we are exposed to increases in the prices of smartphone components and materials. While we may seek to reflect such

increases in the pricing of our smartphones, we may not be able to do so completely or in a timely fashion. Our future growth and financial performance may depend in part on our ability to develop, produce and sell our smartphones. If we fail to deliver product enhancements, new releases or new products that our users consider useful and attractive, our business and results of operations would be harmed.

If we fail to retain existing or attract new advertising customers to advertise on our platform, maintain and increase our wallet share of advertising budget or if we are unable to collect accounts receivable in a timely manner, our financial condition and results of operations may be materially and adversely affected.

To date, the largest source of our internet service revenues is advertising. We cannot assure you that we will be able to retain our advertising customers in the future, attract new advertising customers continuously or be able to retain our advertising customers at all. If our advertising customers find that they can generate better returns elsewhere, or if our competitors provide better advertising services to suit our advertising customers' goals, we may lose our advertising customers. In addition, third parties may develop and use certain technologies to block the display of our advertising customers' advertisements on our platform, which may in turn cause us to lose advertising customers and adversely affect our results of operations. Since most of our advertising customers are not bound by long-term contracts, they may lessen or discontinue advertising arrangements with us easily without incurring material liabilities. Failure to retain existing advertising customers or attract new advertising customers to advertise on our platform may materially and adversely affect our financial conditions and results of operations.

Our brand advertising customers typically enter into advertising agreements with us through various third-party advertising agencies. In the advertising industry in mainland China, advertising agencies typically have good relationships and maintain longer periods of cooperation with the brand advertising customers they represent. In addition to entering into advertising contracts directly with advertising customers, we also enter into advertising contracts with third-party advertising agencies, which represent advertising customers, even if we have direct contact with such advertisers. As a result, we rely on third-party advertising agencies for sales to, and collection of payment from, our brand advertisers. The financial soundness of our advertising customers and advertising agencies may affect our collection of accounts receivable. We make a credit assessment of our advertising customers and advertising agencies to evaluate the collectability of the advertising service fees before entering into an advertising contract. However, we cannot assure you that we are or will be able to accurately assess the creditworthiness of each advertising customer or advertising agency, and any inability of advertising customers or advertising agencies to pay us in a timely manner may adversely affect our liquidity and cash flows. In addition, there has been some consolidation among advertising agencies in mainland China. If this trend continues, a small number of large advertising agencies may be in a position to demand higher rebate for advertising agency services, which could reduce our advertising revenue.

We generate a significant portion of revenues from our other internet services from online games. If we fail to source suitable third-party online games on reasonable terms, our revenues from other internet services may be materially and adversely affected.

Our revenues from internet services segment are derived from (i) advertising services and (ii) internet value-added services, which primarily include online games. The success of our online

games depends on our ability to source suitable third-party games on reasonable terms. We may not be able to identify popular and profitable games and license such games on acceptable terms. Popular games may have a short period of popularity. Game developers with popular games may discontinue their cooperation with us. In addition, increased competition in Chinese and international games market may negatively impact the fee sharing arrangement between game developers and us. Should any of these occur, our revenues from internet value-added services would be materially and adversely affected. As a result, our business, financial condition and results of operations may be adversely affected.

Our business is subject to the risks of international operations.

We derive a significant portion of our revenues from our international operations. During the Track Record Period, we generated 6.1%, 13.4% and 28.0% of our revenues in the rest of the world in 2015, 2016 and 2017, respectively. As we plan to expand our operations in additional emerging markets and regions, we may have to adapt our business models to the local market due to various legal requirements and market conditions. Our international operations and expansion efforts have resulted and may continue to result in increased costs and are subject to a variety of risks, including increased competition, uncertain enforcement of our intellectual property rights, more complex distribution logistics and the complexity of compliance with foreign laws and regulations. Compliance with applicable Chinese and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although we have implemented policies and procedures to comply with these laws and regulations, a violation by our employees, contractors or agents could nevertheless occur. In some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. Violations of these laws and regulations could materially and adversely affect our brand, international growth efforts and business.

We also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Margins on sales of our products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially and adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. We are also exposed to credit and collectability risk on our trade receivables with customers in certain international markets. There can be no assurance that we can effectively limit our credit risk and avoid losses.

Mainland China and global economic conditions could materially and adversely affect us.

Our operations and performance depend significantly on mainland China and global economic conditions. Uncertainty about mainland China and global economic conditions poses a risk as consumers and businesses may postpone spending in response to credit constraint, rising unemployment rate, financial market volatility, government austerity programs, negative financial news, declines in income or asset values and/or other factors. These worldwide and regional economic conditions could have a material adverse effect on demand for our products and services. Demand also could differ materially from our expectations as a result of currency fluctuations. Other factors that could influence worldwide or regional demand include changes in fuel and other energy costs, conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could materially and adversely affect demand for our products and services.

We rely on access to third-party intellectual property, which may not be available to us on commercially reasonable terms, or at all.

Many of our products and provision of our services include or rely on third-party intellectual property, which requires licenses from those third parties. For example, we have entered into worldwide intellectual property cross license agreements with a number of global technology leaders in the mobile telecommunications market. In addition, we contract with numerous third parties to offer their digital content, including music, films, TV shows and online literature, to our users. Based on past experience and industry practice, we believe such licenses generally can be obtained on commercially reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms, or at all. If we fail to renew any intellectual property license agreements on acceptable terms, we may not be able to use the patents and technologies of these third parties in our products, which are critical to our success. Seeking alternative patents and technologies may be difficult and time-consuming, and we may not be successful in finding alternative technologies or incorporating them into our products. Furthermore, some third-party content providers and distributors currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for us to license or otherwise distribute their content in the future. Other content owners, providers or distributors may seek to limit our access to, or increase the cost of, such content. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude us from selling certain products, providing certain services including digital content, or otherwise have a material adverse impact on our financial condition and operating results.

We could be impacted by unfavorable results of legal and administrative proceedings, such as being found to have infringed on intellectual property rights.

We are subject to various legal, administrative proceedings and claims that have arisen in the ordinary course of business and have not yet been fully resolved, and new claims may arise in the future. In addition, agreements entered into by us sometimes include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party. In particular, we have been, and may continue to be, subject to various intellectual property claims, including patent, copyright and trademark disputes, relating to technologies or intellectual property used in our products and services and claiming infringement or violations of intellectual property rights, and new claims may arise in the future. For example, on December 5, 2014, our subsidiaries, Xiaomi Inc. and Xiaomi India Technology, were, among others, named as defendants in a civil lawsuit filed by Telefonaktiebolaget LM Ericsson (PUBL) ("**Ericsson**") before the High Court of Delhi at New Delhi, India. Ericsson claimed, among other things, that we had infringed eight of its patents registered in India in the field of telecommunications by selling and marketing various models of mobile handsets and other mobile accessories in India incorporating those patents without procuring a valid license from Ericsson. In addition, on January 12, 2018, our subsidiaries, Xiaomi Communications, Xiaomi Inc., and MiHome Business Co., Ltd. (Shenzhen) First Branch were named as defendants in a lawsuit filed by Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("**Yulong**") before Shenzhen Intermediate People's Court in Guangdong Province. Yulong claims that we had infringed three invention patents held by Yulong by producing and selling products that incorporate technologies covered by those patents. Furthermore, Xiaomi Communications, Xiaomi Inc. and certain other parties were named as defendants in a lawsuit filed by Hangzhou Lianan Anfang Engineering Co., Ltd. ("**Hangzhou Lianan**") on December 4, 2017 before Hangzhou Intermediate People's Court in Zhejiang Province. Hangzhou Lianan claims that we had infringed "MIKA 米家" trademarks in various

products, which are sold on Mi Store and our third-party online distribution partners. We are vigorously defending infringement actions, including those mentioned above, in courts and arbitral bodies in a number of jurisdictions. The plaintiffs in these actions sometimes seek injunctions and substantial damages.

In addition, we have also been, and may continue to be, subject to various intellectual property infringement or misappropriation claims, as a result of digital content and internet services provided by our internet service providers and made available through our platform such as games, videos and music. We may not be able to, in a timely manner, identify and remove all potential infringing content and services, and cannot assure you that intellectual property right infringement or misappropriation claims resulting from internet services providers' violations of their contractual obligations will not occur.

Regardless of the merit of particular claims, legal and administrative proceedings, such as litigations, injunctions and governmental investigations, may be expensive, time-consuming or disruptive to our operations and distracting to management. In recognition of these considerations, we in the past have entered into, and may enter into new or further licensing agreements or other arrangements to settle litigation and resolve such disputes. No assurance can be given that such agreements can be obtained on acceptable terms or that litigation will not occur. These agreements may also significantly increase our operating expenses.

Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal or administrative proceedings pending or threatened against us or any of our Directors that could, individually or in the aggregate, have a material effect on our business, financial condition or results of operations, including those outlined above. However, new legal or administrative proceedings and claims may arise in the future and the current legal or administrative proceedings and claims we face are subject to inherent uncertainties. Although our management considers the likelihood of such an outcome to be remote, if one or more legal or administrative matters were resolved against us or an indemnified third party for amounts in excess of our management's expectations or certain injunctions are granted to prevent us from using certain technologies in our products and services, our business and financial conditions could be materially and adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures, injunctive relief or specific performance against us that could materially and adversely affect our financial condition and operating results.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete agreements with our employees and others, to protect our proprietary rights. We may become an attractive target to counterfeiting and intellectual property theft activity because of our brand recognition. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, there can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual

property, or that such patents will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

It is often difficult to register, maintain and enforce intellectual property rights in mainland China. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation. Confidentiality, invention assignment and non-compete agreements may be breached by counterparties, and there may not be adequate remedies available to us for any such breach. Accordingly, we may not be able to effectively protect our intellectual property rights or to enforce our contractual rights in mainland China. Policing any unauthorized use of our intellectual property is difficult and costly and the steps we take may be inadequate to prevent the infringement or misappropriation of our intellectual property. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources, and could put our intellectual property at risk of being invalidated or narrowed in scope. We can provide no assurance that we will prevail in such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Various other issues may arise with respect to our intellectual property portfolio. We and our ecosystem partners are co-owners of certain patents, certain other intellectual properties and user data related to hardware products produced by such partners. There is a possibility that our ecosystem partners may use these intellectual properties and user data to develop and manufacture competing products on their own or engage other companies to do so by leveraging such resources. In addition, we may not have sufficient intellectual property rights in all countries and regions where unauthorized third-party copying or use of our proprietary technology may occur and the scope of our intellectual property might be more limited in certain countries and regions. Our existing and future patents may not be sufficient to protect our products, services, technologies or designs and/or may not prevent others from developing competing products, services, technologies or designs. We cannot predict the validity and enforceability of our patents and other intellectual property with certainty.

Our liquidity and financial condition may be materially and adversely affected if we fail to collect trade receivables from our customers in a timely manner, or at all.

Historically, we have not experienced material collection issues in connection with receivables from our customers. However, we cannot assure you that our customers will continue to make timely and full payments to us. If we fail to collect all or part of such payments in a timely manner, or at all, or if our major customers extend their trade receivables turnover days, our liquidity and financial condition may be materially and adversely affected.

We face inventory and other asset risks in addition to purchase commitment cancelation risk.

We record a write-down for inventories that have exceeded net realizable value. We also review our long-lived assets for impairment whenever events or circumstances indicate the carrying

amount of an asset may not be recoverable. If we determine that impairment has occurred, we record a write-down equal to the amount by which the carrying value of the asset exceeds its fair value. Although we believe our provisions related to inventory, capital assets, inventory prepayments and other assets are currently adequate, no assurance can be given that we will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which we compete.

We must order products or components for our products and build inventory in advance of product announcements and shipments. Because our markets are volatile, competitive and subject to rapid technology and price changes, there is a risk that we may forecast incorrectly and order or produce excess or insufficient amounts of components or products.

Future operating results depend upon our ability to obtain raw materials, components and products in sufficient quantities on commercially reasonable terms.

Because we currently obtain certain core raw materials and components from limited sources, we are subject to supply and pricing risks. Purchases from our five largest suppliers for each of 2015, 2016 and 2017 accounted for approximately 41.7%, 37.6% and 42.0% of our total purchase amounts during those years, respectively. Our largest supplier for the years ended December 31, 2015, 2016 and 2017 accounted for approximately 11.8%, 13.8% and 14.3% of our total purchase amount during those years, respectively. Some raw materials and components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While we have entered into agreements for the supply of many raw materials, components and IoT and lifestyle products, there can be no assurance that we will be able to extend or renew these agreements on similar terms, or at all. A number of suppliers of raw materials, components and products may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting our ability to obtain sufficient quantities of raw materials and components on commercially reasonable terms. The effects of global or regional economic conditions on our suppliers also could affect our ability to obtain raw materials, components and products. Therefore, we remain subject to significant risks of supply shortages and price increases.

Our new products may utilize customized components available from limited sources. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if those suppliers decide to concentrate on the production of common components and products instead of components and products customized to meet our requirements. The supply of components for a new or existing product could be delayed or constrained, and a key partner could delay shipments of completed products to us.

We depend on component, product assembly and logistical services provided by outsourcing partners.

Substantially all of our assembly is performed in whole or in part by outsourcing partners located in mainland China, India and Indonesia. We have also outsourced much of our transportation and logistics management. While these arrangements may lower operating costs, they also reduce our direct control over production and distribution. We may experience operational difficulties with our outsourcing partners, including reductions in the availability of production capacity, failures to comply

with product specifications, insufficient quality control, failures to meet production deadlines, increases in assembling costs and longer lead time required. Our outsourcing partners may experience disruptions in their assembly operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases or other similar problems. In addition, we may not be able to renew contracts with our outsourcing partners or identify substitute partners who are capable of producing new products we target to launch in the future. Although arrangements with these partners may contain provisions for warranty expense reimbursement, we may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. Any failure of our supply, assembly and logistics partners to perform may have a material negative impact on our cost or supply of components or finished goods. In addition, assembly or logistics in our primary locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

Any substantial decrease in the purchases for our products or services from our five largest customers could have a material and adverse effect on us.

Our top five customers accounted for approximately 29.7%, 27.0% and 32.0% of our total revenue in 2015, 2016 and 2017, respectively. Our largest customer accounted for approximately 10.4%, 15.4% and 13.5% of our revenue for the years ended December 31, 2015, 2016 and 2017, respectively. We cannot assure you that we will be able to maintain good business relationships with our top five customers going forward. Our top five customers may not continue to provide us with new businesses in the future at a level similar to that in the past or at all. Should any of these top five customers reduce substantially the size of their purchases from with us or terminate their business relationship with us entirely for any reason, or is wound-up or fails to pay for its purchases on time, we cannot assure you that we will be able to secure new businesses from other customers to compensate for such substantial reduction in purchases or loss of business entirely. In addition, we cannot assure you that the new businesses secured from other customers for replacement, if any, will be on commercially comparable terms. If any of the foregoing materializes, our business, operating results and financial condition may be materially and adversely affected.

Our products and services may experience quality problems from time to time that can result in decreased sales and operating margin and harm to our reputation.

We offer complex hardware products and services that may contain design and manufacturing defects. Sophisticated operating system software and applications, such as those offered by us, may contain "bugs" that can unexpectedly interfere with the software's intended operation. Our internet services may from time to time experience outages, service slowdowns or errors, or malicious attacks. Defects may also occur in components and products we purchase from third parties or assembled by our outsourcing partners. There can be no assurance that we will be able to detect and fix all defects in the hardware, software and services we offer. Failure to do so could result in lost revenue, significant warranty and other expenses, disputes and related legal proceedings, and harm to our reputation.

Our future performance depends in part on support from third-party software developers.

We believe decisions by users to purchase our hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party

developers will continue to develop and maintain software applications and services for our products. If third-party software applications and services cease to be developed and maintained for our products, customers may choose not to buy our products. Android devices are subject to rapid technological change, and, if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. The availability and development of these applications also depend on developers' perceptions and analysis of the relative benefits of developing, maintaining or upgrading software for our devices rather than our competitors' platforms. If developers focus their efforts on these competing platforms, the availability and quality of applications for our devices may suffer.

Our business is subject to a variety of mainland Chinese and international laws, rules, policies and other obligations regarding data protection. Any losses or unauthorized access to or releases of confidential information and personal data could subject us to significant reputational, financial, legal and operational consequences.

Our business requires us to use and store confidential information, including, among other things, personally identifiable information ("**PII**") with respect to our users and employees. We are subject to domestic and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also may restrict transfers of PII among us and our international subsidiaries. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. Noncompliance could result in significant penalties or legal liability. We make statements about our use and disclosure of PII through our privacy policy, information provided on our internet platform and press statements. Any failure by us to comply with these public statements or with other domestic or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others. In addition to reputational impacts, penalties could include ongoing audit requirements and significant legal liability. We devote significant resources to network and data security, including through the use of encryption and other security measures intended to protect our systems and data. But these measures cannot provide absolute security, and losses or unauthorized access to or releases of confidential information, in particular PII, may still occur, which could materially and adversely affect our reputation, financial condition and operating results.

Our business also requires us to share certain confidential information with suppliers and other third parties. Although we take steps to secure confidential information that is provided to third parties, such measures may not be effective and losses or unauthorized access to or releases of confidential information may still occur, which could materially and adversely affect our reputation, financial condition and operating results. For example, we may experience a security breach impacting our information technology systems that compromises the confidentiality, integrity or availability of confidential information. Such an incident could, among other things, impair our ability to attract and retain users for our products and services, impact our stock price, materially damage supplier relationships, and expose us to litigation or government investigations, which could result in penalties, fines or judgments against us.

We have implemented systems and processes intended to secure our information technology systems and prevent unauthorized access to or loss of sensitive data, including through the use of

encryption and authentication technologies. As with all companies, these security measures may not be sufficient for all eventualities and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. For example, third parties may attempt to fraudulently induce employees or users into disclosing user names, passwords or other sensitive information, which may in turn be used to access our information technology systems. To help protect users and ourselves, we monitor our services and systems for unusual activity and may freeze accounts under suspicious circumstances, which, among other things, may result in the delay or loss of user orders, impede user access to our products and services, or subject us to claims or other legal proceedings against us.

Our expansion into new product categories and substantial increase in SKUs may expose us to new challenges and more risks.

In recent years, we have expanded our product offerings to include a wide range of IoT and lifestyle products. Expanding into diverse new product categories and substantially increasing our SKUs involves new risks and challenges. Our lack of familiarity with these products and lack of relevant customer data relating to these products may make it more difficult for us to anticipate user demand and preferences. We may misjudge user demand, resulting in inventory buildup and possible inventory write-down. It may also make it more difficult for us to inspect and control quality and ensure proper handling, storage and delivery. We may experience higher return rates on new products, receive more customer complaints about them and face costly product liability claims as a result of selling them, which would harm our brand and reputation as well as our financial performance. Furthermore, we may not have much purchasing power in new categories of products and we may not be able to negotiate favorable terms with suppliers and ecosystem partners. We may need to price aggressively to gain market share or remain competitive in new categories. It may be difficult for us to achieve profitability in the new product categories and our profit margin, if any, may be lower than we anticipate, which would adversely affect our overall profitability and results of operations. We cannot assure you that we will be able to recoup our investments in introducing these new product categories.

Exercise of options granted or to be granted under the XMF Share Option Schemes may significantly dilute our interest in Xiaomi Finance over time to the extent that the results of operations of Xiaomi Finance will no longer be consolidated into those of our Group.

We adopted the XMF Share Option Schemes in 2018. See the sections headed "Statutory and General Information—Share Option Schemes—The XMF Share Option Scheme I" and "—The XMF Share Option Scheme II" in Appendix IV for further details.

As of the Latest Practicable Date, Xiaomi Finance is our wholly-owned subsidiary and Xiaomi Finance is included in our Group's consolidated financial statements.

The grant of options under the XMF Share Option Schemes will result in share-based compensation expenses being incurred on our Group's consolidated income statement, the impact of which will depend on the valuation of such options taking into account, among other things, the exercise price, the vesting period, volatility of the underlying shares, the company value of Xiaomi Finance, and the valuation model adopted by the valuer. In particular, under the XMF Share Option Scheme II, the exercise price per share of any options to be granted shall be determined by the board of Xiaomi Finance at the time of grant, which shall not be less than the per share valuation based on the most recent appraised value of Xiaomi Finance prior to its adoption date. In particular, we [have

granted] options pursuant to the XMF Share Option Scheme I prior to the **[REDACTED]**. Such grant may significantly increase our share-based compensation expenses and, upon exercise of such options, dilute our shareholding in Xiaomi Finance.

The exercise of options under the XMF Share Option Schemes is at the discretion of the grantees subject to the terms and conditions of the grant. The exercise of such options over time will effectively dilute our interest in Xiaomi Finance. The maximum number of shares represented by the options to be granted under the XMF Share Option Schemes is 60% of the total issued share capital of Xiaomi Finance (assuming all options representing the maximum number of shares issuable under the XMF Share Option Schemes have been granted and exercised), thus, the potential dilution effect to our interest in Xiaomi Finance could be very significant. Assuming no other change to the share capital of Xiaomi Finance and the maximum number of shares having been issued pursuant to the exercise of all the options granted under the XMF Share Option Scheme, our interest in Xiaomi Finance will be diluted to 40%. We may lose control of Xiaomi Finance if our interest is diluted to the extent that we have less than a majority of the voting rights in Xiaomi Finance. If we lose control in Xiaomi Finance through such dilution, Xiaomi Finance may cease to be our subsidiary, and we may not be able to consolidate its results of operations into those of our Group. The loss of control of Xiaomi Finance represents a significant economic event that changes the relationship between our Group and Xiaomi Finance and may have a significant impact on our financial statements.

In the event Xiaomi Finance ceases to be our subsidiary through the operation of the XMF Share Option Schemes, we expect to retain significant influence (but not control) over Xiaomi Finance through our remaining interests and will account for Xiaomi Finance as an associated company using the equity method of accounting. Our remaining interest will be measured at fair value as at the date Xiaomi Finance ceases to be our subsidiary. We will derecognize the assets and liabilities of Xiaomi Finance and any related non-controlling interests and the components of equity. The gain or loss that results from the deconsolidation and initial recognition as an associated company will be recognized as "gain/(loss) from deconsolidation of a subsidiary" on our Group's consolidated income statements. Under the equity method of accounting, neither Xiaomi Finance's revenue nor any other individual line item of Xiaomi Finance's consolidated financial statements will be recorded in the corresponding line items of our Group's consolidated financial statements. We will report the value of our remaining ownership position in Xiaomi Finance as a single line item on our Group's consolidated financial statements. The deconsolidation of Xiaomi Finance's results of operations may also significantly impact our line items such as revenue, assets and, in turn, the comparability of our reported results of operations.

We are unable to quantify the financial impact at this stage as we cannot predict either the future growth of Xiaomi Finance or if and when we will lose equity control of Xiaomi Finance. For the year ended December 31, 2017, the revenue and net profit (before tax) of Xiaomi Finance accounted for approximately 0.7% and 0.2%, respectively, of those of our Group. As of December 31, 2017 the total assets of Xiaomi Finance accounted for approximately 14.1% of that of our Group. Xiaomi Finance is still in an early development stage, and we cannot assure you that it will not become more significant to our Group in the future, particularly if its growth outpaces that of the Group as a whole. In general, the more significant Xiaomi Finance is relative to our Group, the greater impact its de-consolidation is expected to have on our financial statements.

Furthermore, Xiaomi Finance has a core business that is different from that of our Group. As the operations of Xiaomi Finance mature going forward, we cannot assure you that the interests of our

Company and the employee-owners and/or option-holders of Xiaomi Finance will always align, and that the relevant safeguards described in the section headed "Waivers from Compliance with the Listing Rules—Waiver in relation to XMF Share Option Scheme II," will adequately protect our interests.

We are subject to laws and regulations worldwide, changes to which could increase our costs and individually or in the aggregate adversely affect our business.

We are subject to laws and regulations affecting our domestic and international operations in a number of areas. These mainland Chinese and foreign laws and regulations affect our activities including, but not limited to, in areas of labor, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health and safety. In the case any of them is violated and leads to legal proceedings, it could disrupt our business, distract our management's attention and subject us to substantial uncertainties as to the outcome of any such legal proceedings.

By way of example, laws and regulations related to mobile communications and media devices in the many jurisdictions in which we operate are extensive and subject to change. Such changes could include, among others, restrictions on the production, assembly, distribution and use of devices. These devices are also subject to certification and regulation by governmental and standardization bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications, or delays in product shipment dates, or could preclude us from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make our products and services less attractive to our users, delay the introduction of new products in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, agents, or business partners will not violate such laws and regulations or our policies and procedures.

Any trade or import protection policies may affect our business.

We have exported our products to a large number of foreign countries and derive significant sales from exporting to these countries. In the event that any of these countries which we export to imposes trade sanctions on mainland China or enforces import restriction or tariffs in relation to hardware devices, our business and operations may be adversely affected. Furthermore, we rely on certain overseas suppliers to obtain components and raw materials for the assembling of our hardware devices. In the event that mainland Chinese government imposes import tariffs, trade restrictions or other trade barriers affecting the importation of such components or raw materials, we may not be able to obtain a steady supply of necessary components or raw materials at competitive prices, and our business and operations may be materially and adversely affected.

We are subject to governmental economic sanctions laws that could subject us to liability and impair our ability to compete in international markets.

Exports of our products must be made in compliance with various economic and trade sanctions laws in different jurisdictions. For example, U.S. economic sanctions prohibit the provision of products and services to countries, governments, and persons targeted by U.S. sanctions. United Kingdom financial sanctions and European Union sanctions also have similar regime to prohibit the provision of products and services to countries, governments and persons on their respective target list. Even though we take precautions to prevent our products from being provided to any target of these sanctions, our products could be provided to those targets through independent distributors despite such precautions. Any such provision could have negative consequences, including government investigations, penalties and reputational harm. We could be subject to future enforcement action with respect to compliance with governmental economic sanctions laws that result in penalties and costs that could have a material effect on our business and operating results.

Our success depends largely on the continued service of our senior management and key personnel and the continued thriving of our corporate culture and values.

Much of our future success depends on the continued contributions of our senior management and other key employees, many of whom are difficult to replace. The loss of the services of any of our executive officers, especially our executive Director, Founder, Chairman and Chief Executive Officer, Lei Jun, our senior management team and other highly skilled employees could harm our business. Competition for qualified talent is intense, particularly in the internet and technology industries. Our future success depends on our ability to attract a large number of qualified employees and retain existing key employees. If we are unable to do so, our business and growth may be materially and adversely affected.

Our unique corporate culture, being genuinely open, dynamic and collaborative, is driven by our founding team members who are all engineers or product designers. We value our users highly and firmly believe that the benefits of technological innovation should be easily accessible to everyone. Our corporate culture and values have empowered our rapid growth in the past, and we may risk losing the trust of our users, employees and partners and our operations may be materially and adversely affected if we fail to maintain our unique corporate culture and values.

If we are unable to recruit, train and retain qualified personnel or sufficient workforce while controlling our labor costs, our business may be materially and adversely affected.

We intend to hire additional qualified employees to support our business operations and planned expansion. Our future success depends, to a significant extent, on our ability to recruit, train and retain qualified personnel, particularly technical, marketing and other operational personnel with experience in the internet industry. Our experienced mid-level managers are instrumental in implementing our business strategies, executing our business plans and supporting our business operations and growth. The effective operation of our managerial and operating systems also depends on the hard work and quality performance of our management and employees. Since our industry is characterized by high demand and intense competition for talent and labor, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. Labor costs in mainland China and elsewhere have increased with the global economic development. In addition, our ability to train and integrate new employees into our operations may also be limited and may not meet the demand for our business

growth on a timely fashion, or at all, and rapid expansion may impair our ability to maintain our corporate culture.

Any deterioration of our relationship with our third-party online distribution partners could have a material adverse effect on our business and results of operations.

We sell our products through a global online distribution network comprising of third-party online distribution partners. In mainland China, we cooperate with leading e-commerce players such as JD.com and Suning.com. In India and the rest of the world, the third-party e-commerce marketplaces in which our products are sold primarily include Flipkart, TVS Electronics and Amazon. These third-party e-commerce players are important distribution channels for our products. We typically enter into a non-exclusive framework agreement with each of them, and receive orders from them on a regular basis and deliver our products within our committed timeline. The framework agreements typically have a term of one year and can be renewed by the parties upon mutual agreement.

Our current agreements with partners and other third parties generally do not prohibit them from working with our competitors or from selling competing products. Our competitors may be more effective in providing incentives to our third-party online distribution partners to favor our competitors' products and promote their sales. In addition, if our third-party online distribution partners are not successful in selling our products due to various reasons, including lower demand, market competition and decreasing efficiency of distribution network, our revenue may decrease. Pursuing, establishing and maintaining relationships with our third-party online distribution partners require significant time and resources. We cannot assure you that we will be able to renew those framework agreements upon its expiry or on acceptable terms. If for any reason, our relationship with our third-party online distribution partners deteriorates, our business and results of operations may be materially and adversely affected.

Our retail stores have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

Our retail stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel. We also have entered into substantial operating lease commitments for retail space. A decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs. Many factors unique to retail operations, some of which are beyond our control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, as well as our inability to manage costs associated with store construction and operation, more challenging environments in managing retail operations, costs associated with unanticipated fluctuations in the value of retail inventory, and our inability to obtain and renew leases in quality retail locations at a reasonable cost.

Investment in new business strategies and acquisitions could disrupt our ongoing business and present risks not originally contemplated, and we may be unable to realize the anticipated benefits, synergies, cost savings or efficiencies from acquisitions.

We have invested, and in the future, may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management

from current operations, greater than expected liabilities and expenses, inadequate return of capital and unidentified issues not discovered in our due diligence. These new ventures are inherently risky and may not be successful. In addition, upon completion of an investment or acquisition, we may allocate significant resources to the integration new business into our existing business to realize synergetic benefits. The integration process involves certain risks and uncertainties, some of which are outside our control, and there can be no assurance that we will be able to realize the anticipated benefits, synergies, cost savings or efficiencies.

Our business and reputation may be impacted by information technology system failures or network disruptions.

We may be subject to information technology system failures or network disruptions caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy and other continuity measures may be ineffective or inadequate, and our business continuity and disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could adversely impact our business by, among other things, preventing access to our internet services, interfering with customer transactions or impeding the assembling and shipping of our products. These events could materially and adversely affect our reputation, financial condition and operating results, or result in adverse publicity, claims or other legal proceedings against us.

Our delivery, return and exchange policies may adversely affect our results of operations.

We have adopted shipping policies that do not necessarily pass the full cost of shipping onto our users. We also have adopted customer-friendly return and exchange policies that make it convenient and easy for customers to change their minds after completing purchases. We may also be required by law to adopt new or amend existing return and exchange policies from time to time. These policies improve users' shopping experience and promote customer loyalty, which in turn help us acquire and retain users. However, these policies also subject us to additional costs and expenses which we may not recoup through increased revenue. If our return and exchange policy is misused by a significant number of customers, our costs may increase significantly and our results of operations may be materially and adversely affected. If we revise these policies to reduce our costs and expenses, our users may be dissatisfied, which may result in loss of existing users or failure to acquire new users at a desirable pace, which may materially and adversely affect our results of operations.

We may be subject to product liability claims if people or properties are harmed by the products we sell.

Some products we sell may be defective. As a result, sales of such products could expose us to product liability claims relating to personal injury or property damage and may require product recalls or other actions. Third parties subject to such injury or damage may bring claims or legal proceedings against us as the seller of the product. Although we would have legal recourse against the suppliers and manufacturers of such products under laws, attempting to enforce our rights against the suppliers and manufacturer may be expensive, time-consuming and ultimately futile. We maintain third-party liability insurance and product liability insurance in relation to products we sell through certain distribution channels and in certain markets. However, such insurance coverage might be insufficient to fully cover all damages sought and the claim process might be prolonged. As a result, any material product liability claim or litigation could have a material and adverse effect on our business, financial

condition and results of operations. Even unsuccessful claims could result in the expenditure of funds and managerial efforts in defending them and could have a negative impact on our reputation.

Failure to renew our current leases or locate desirable alternatives for our facilities could materially and adversely affect our business.

We primarily lease properties for our offices and offline retail stores. We may not be able to successfully extend or renew such leases upon expiration of the current term on commercially reasonable terms, or at all, and may therefore be forced to relocate our affected operations. This could disrupt our operations and result in significant relocation expenses, which could adversely affect our business, financial condition and results of operations. In addition, we compete with other businesses for premises at certain locations or of desirable sizes. As a result, even though we could extend or renew our leases, rental payments may significantly increase as a result of the high demand for the leased properties. In addition, we may not be able to locate desirable alternative sites for our facilities as our business continues to grow and failure in relocating our affected operations could adversely affect our business and operations.

We have limited experience in operating an internet finance business, which is an emerging and evolving industry subject to developing regulations in mainland China. Significant deterioration in the asset quality of our internet finance business may have an adverse effect on our business, results of operations and financial condition.

We have recently started to participate in the internet finance sector in mainland China. The internet finance industry in mainland China is new, and the regulatory framework for this industry is also evolving and may remain uncertain for the foreseeable future. We have developed various financial products and consumer financing solutions. Expansion in this new business area involves new risks and challenges. For certain financial products, we have committed or will commit our own capital. Our lack of familiarity with the internet finance sector may make it difficult for us to anticipate the demands and preferences in the market and develop financial products that meet the requirements and preference. We may not be able to successfully identify new product and service opportunities or develop and introduce these opportunities to our users in a timely and cost-effective manner, or our users may be disappointed in the returns from financial products that we offer. Furthermore, our ability to manage the quality of our asset portfolio will have significant impact on the results of operations of our internet finance business. Deterioration in the overall quality of our asset portfolio may occur due to a variety of reasons, including factors beyond our control, such as a slowdown in the growth of the mainland Chinese or global economies or a liquidity or credit crisis in the mainland Chinese or global finance sectors. Any significant deterioration in the asset quality of our internet finance business may have an adverse effect on our business, results of operations and financial condition.

Our business may be impacted by political events, war, terrorism, public health issues, natural disasters and other business interruptions.

War, terrorism, geopolitical uncertainties, public health issues and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers, outsourcing partners and users. Our business operations are subject to interruption by, among others, natural disasters, whether as a result of climate change or otherwise, fire, power shortages and other industrial accidents, terrorist attacks and other hostile acts, labor disputes, public health issues, the existence of

anti-Chinese sentiment and related events, demonstrations or policies such as the implementation of protectionism against mainland Chinese companies, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our users, or to receive components or products from our suppliers and ecosystem partners, and create delays and inefficiencies in our supply chain. While our suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to our business and harm to our reputation. Should major public health issues, including pandemics, arise, we could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of our outsourcing partners, component suppliers and ecosystem partners. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

Our financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.

Our primary exposure to movements in foreign currency exchange rates relates to sales in international markets that are not denominated in Renminbi or U.S. dollar, For example, sales in India are denominated in Indian Rupee, and expenses, especial cost of sales, incurred in India and elsewhere in the world are denominated in U.S. dollar. Weakening of a foreign currency such as the Indian Rupee relative to the U.S. dollar adversely affects the U.S. dollar value of our sales and earnings denominated in such foreign currency, and generally leads to increased prices in the foreign market, potentially reducing demand for our products. Margins on sales of our products in international markets which include components procured from with U.S. dollars, could be materially and adversely affected by foreign currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, we may decide not to raise local prices to fully offset the U.S. dollar's strengthening, or at all, which would adversely affect the U.S. dollar value of our sales and earnings denominated in foreign currencies such as Indian Rupee. Additionally, strengthening of foreign currencies, primarily the U.S. dollar, may increase our cost of product components denominated in those currencies, thus adversely affecting gross margins.

Higher labor costs and inflation may adversely affect our business and our profitability.

Labor costs in mainland China, India and elsewhere in the world have risen in recent years. Rising labor costs may be reflected in the manufacturing fees charged by our outsourcing partners to us and in the prices of finished goods. In addition, we have witnessed growing inflation rates in many areas of the world, and particularly in Asia where we procure most of our raw materials, which adversely affects us and our suppliers alike.

The rising costs as a result of higher labor cost of our outsourcing partners and ecosystem partners, as well as increasing raw material price cannot be easily passed to end users in the form of higher retail sale prices due to severe competition in the smart device market. Our profitability therefore may be adversely affected if labor cost and inflation continue to rise in the future.

We could be subject to changes in our tax rates, the adoption of new domestic or international tax legislation or exposure to additional tax liabilities.

We are subject to taxes in mainland China and numerous jurisdictions in the rest of the world, including India, where a number of our subsidiaries are organized. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. Our effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation.

We are also subject to the examination of its tax returns and other tax matters by domestic and international tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance as to the outcome of these examinations. If our effective tax rates were to increase, or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our financial condition, operating results and cash flows could be adversely affected.

Our use of open source software could negatively affect our ability to sell our products and subject us to possible litigation.

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our products and services that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose or provide at no cost any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages and enjoined from the sale of our products and services that contained the open source software. Any of the foregoing could disrupt the distribution and sale of our products and services and harm our business.

We may need additional capital, and financing may not be available on terms acceptable to us, or at all.

We believe that our current cash and cash equivalents and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any changes in our pricing policy, marketing initiatives or investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

We have granted restricted share units and share options under our Pre-*[REDACTED] *ESOP, and may grant additional restricted share units, share options or other share-based awards under the Pre-*[REDACTED] *ESOP, which may result in increased share-based compensation expenses and dilution to the shareholding of existing shareholders.

We have adopted our Pre-**[REDACTED]** ESOP for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. As of the Latest Practicable Date, we granted options and restricted share units to purchase an aggregate 244,500,097 Class B ordinary shares of par value US$0.000025 each. We have incurred share-based compensation expenses of RMB690.7 million, RMB871.2 million and RMB909.2 million for the years ended December 31, 2015, 2016 and 2017, respectively, and we may grant additional share-based awards under the Pre-**[REDACTED]** ESOP. On April 2, 2018, we issued 63,959,619 Class B ordinary shares of par value US$0.000025 each (or **[REDACTED]** Class B Shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity controlled by Lei Jun, to reward Lei Jun for his contributions to our Company. Such issuance will result in significant share-based compensation expenses in the second quarter of 2018 and for the fiscal year 2018. Any additional grant of share-based awards by us will further increase our share-based compensation expenses, and dilute existing shareholders' shareholding.

We have limited insurance coverage which could expose us to significant costs and business disruption.

We maintain various insurance policies to safeguard against risks and unexpected events. We maintain limited third-party insurance policies covering certain potential risks and liabilities including product liability, property and construction liability. We maintain trade insurance for our overseas transactions in India and certain other markets. We also provide social security insurance including pension insurance, unemployment insurance, work-related injury insurance and medical insurance for our employees in mainland China, as well as statutorily required insurance coverage for overseas employees. However, as the insurance industry in mainland China is still in an early stage of development, insurance companies in mainland China generally do not offer as extensive an array of insurance products as insurance companies do in countries with more developed economies. We cannot assure you that our insurance coverage is sufficient to cover all our risk exposure and prevent us from any loss or that we will be able to successfully claim our losses under our current insurance policy on a timely basis, or at all. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business, financial condition and results of operations could be materially and adversely affected.

In addition, in line with general market practice, we do not maintain any business interruption insurance, which is not mandatory under laws in mainland China. We also do not maintain key-man life insurance or insurance policies covering damages to our IT infrastructure or IT systems. Any disruption in our IT infrastructure or IT systems or natural disasters may cause us to incur substantial costs and the diverse our resources, and we have no insurance to cover such losses. As a result, our business, financial condition and results of operations could be materially and adversely affected.

We may be the subject of anti-competitive, harassing, or other detrimental conduct by third parties including complaints to regulatory agencies, negative blog postings, and the public dissemination of malicious assessments of our business that could harm our reputation and cause us to lose market share, customers and revenues.

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted online by anyone, whether or not related to us, on an anonymous basis. Consumers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation or authentication and without regard to its accuracy. The availability of information on social media is virtually immediate, as is its impact. Social media immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us, and it may harm our financial performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, customers and revenues.

Political instability or a change in economic liberalization and deregulation policies could seriously harm business and economic conditions in India, generally, and our business, in particular.

Our business could be significantly influenced by economic policies adopted by the Government of India. Since 1991, successive governments have pursued policies of economic liberalization and financial sector reforms. The Government of India has in recent years sought to implement economic reforms and the current Government of India has implemented policies and undertaken initiatives that continue the economic liberalization policies pursued by previous governments. There can be no assurance that liberalization policies will continue in the future. The rate of economic liberalization could change, and specific laws and policies affecting foreign investment, currency exchange rates and other matters affecting investment in India could change as well.

The Government of India has traditionally exercised and continues to exercise influence over many aspects of the economy. A change in the Government of India's economic liberalization and deregulation policies could disrupt business and economic conditions in India generally, and specifically our business and operations, as a substantial portion of our revenues are derived from India. This could have a material adverse effect on our financial condition and results of operations.

Changing laws, rules and regulations and legal uncertainties in India, including adverse application of corporate and tax laws, may adversely affect our business and financial performance.

The regulatory and policy environment in India is evolving and subject to change. Such changes in applicable law and policy in India, including the instances described below, may adversely affect our business, prospects, financial condition and results of operations in India, to the extent that we are not able to suitably respond to and comply with such changes.

For instance, the Government of India implemented a comprehensive national goods and services tax ("**GST**") regime that combines taxes and levies by the Central and State Governments into

a unified rate structure on July 1, 2017. However, given its recent introduction, there is no established practice regarding the implementation of, and compliance with, GST. The implementation of the new GST regime has increased the operational and compliance burden for Indian companies and has also led to various uncertainties. Any future increases and amendments to the GST regime may further affect the overall tax efficiency of companies operating in India and may result in significant additional taxes becoming payable. In addition, in November 2016, the Government of India demonetized certain high-value denominations of currency. Trading and retail businesses in India were impacted for a limited period of time on account of such demonetization. Such businesses have subsequently needed to introduce additional point of sale instruments to improve their collection process. Furthermore, the General Anti Avoidance Rules came into effect on April 1, 2017. The effect of the application of these provisions to our business in India is at present uncertain.

Our business and financial performance in India could be adversely affected by unfavorable changes in or interpretations of existing, or the promulgation of new, laws, rules and regulations applicable to us and our business in India. Such unfavorable changes could decrease demand for our products and services, increase costs and/or subject us to additional liabilities in India, which in turn could have a material adverse effect on our financial condition and results of operations. For details on material laws and regulations applicable to our business in India, please see the section entitled "Regulations—India Laws and Regulations Relating to Our Business."

If more stringent labor laws or other industry standards in India become applicable to us, our results of operations may be adversely affected.

India has stringent labor legislation that protects the interests of workers, including legislation that sets forth detailed procedures for dispute resolution and employee removal and legislation that imposes financial obligations on employers upon retrenchment. In addition, we may be subject to certain industry standards regarding our employees. Our employees may in the future form unions. If these labor laws or industry standards become more stringent or are more strictly enforced, or if our employees unionize, it may become difficult for us to maintain flexible human resource policies, discharge employees or downsize, any of which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Further, the introduction of legislation imposing restrictions on working hours or conditions of workers in the outsourcing industry could have an adverse effect on our business, results of operations and financial condition.

Risks Relating to Doing Business in Mainland China

If we fail to obtain and maintain the requisite licenses and approvals required under the complex regulatory environment applicable to our businesses in mainland China, or if we are required to take compliance actions that are time-consuming or costly, our business, financial condition and results of operations may be materially and adversely affected.

The internet and mobile industries in mainland China are highly regulated. Our subsidiaries and variable interest entities in mainland China are required to obtain and maintain applicable licenses and approvals from different regulatory authorities in order to provide their current services. Under the current regulatory scheme in mainland China, a number of regulatory agencies, including but not limited to the SART, the MOC, the MIIT, and the SCIO, jointly regulate major aspects of the internet industry, including the mobile internet and mobile games businesses. Operators must obtain various government approvals and licenses for relevant internet business.

We have obtained the ICP licenses for provision of internet information services, Value-added Telecommunications Business License for information services (excluding internet information services), Value-added Telecommunications Business License for domestic multi-party communications, Approval for Mobile Communications Resale Services, Online Culture Operating Licenses for shows, plays and performances through internet, Online Culture Operating Licenses for the operation of online games, Online Publishing Service Licenses, Payment Business Licenses, Insurance Brokerage Business Licenses and Approval for Operating Small-sum Loan Company, which are generally subject to regular government review or renewal. We cannot assure you that we can successfully update or renew the licenses required for our business in a timely manner or that these licenses are sufficient to conduct all of our present or future business. See the section headed "Business—Legal Proceedings and Compliance."

Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

Adverse changes in economic and political policies of the mainland Chinese government could have a material adverse effect on overall economic growth in mainland China, which could materially and adversely affect our business and results of operation.

A significant portion of our operations are conducted in mainland China and the majority of our revenue are sourced from mainland China. Accordingly, our results of operations, financial condition and prospects are influenced by economic, political and legal developments in mainland China. Economic reforms have resulted in significant economic growth in mainland China in the past few decades. However, any economic reform policies or measures in mainland China may from time to time be modified or revised. Mainland China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the Chinese economy has experienced significant growth in the past few decades, the rate of growth has slowed down since 2012, and growth has been uneven across different regions and among various economic sectors.

The mainland Chinese government exercises significant control over mainland China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Although the Chinese economy has grown significantly in the past decade, that growth may not continue and any slowdown may have a negative effect on our business. Any adverse changes in economic conditions in mainland China, in the policies of the mainland Chinese government or in the laws and regulations in mainland China, could have a material adverse effect on the overall economic growth of mainland China. Such developments could adversely affect our businesses, lead to reduction in demand for our products and adversely affect our competitive position.

The legal system in mainland China embodies uncertainties which could limit the legal protections available to us.

The legal system in mainland China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The legal system in mainland China evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. Our WFOEs are incorporated in mainland China and are wholly-owned by us. Our WFOEs are subject to laws and regulations applicable to foreign investment in mainland China in general, as well as specific laws and regulations applicable to wholly foreign-owned enterprises. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the mainland Chinese legal system, particularly with regard to internet-related industries, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in mainland China may be protracted and result in substantial costs and diversion of resources and management attention.

Regulation and censorship of information disseminated over the internet in mainland China may adversely affect our business and subject us to liability for content posted on our platform.

Internet companies in mainland China are subject to a variety of existing and new rules, regulations, policies, and license and permit requirements. In connection with enforcing these rules, regulations, policies and requirements, relevant government authorities may suspend services by, or revoke licenses of, any internet or mobile content service provider that is deemed to provide illicit content online or on mobile devices, and such activities may be intensified in connection with any ongoing government campaigns to eliminate prohibited content online. For example, in July 2016, the Ministry of Public Security launched a "Special Rectification Activities for Live Streaming Websites" campaign. Based on publicly available information, the campaign aims to eliminate illicit or pornographic information and content on live streaming websites by, among other things, holding liable individuals and corporate entities that facilitate the distribution of illicit or pornographic information and content. For details of regulations on information security and censorship, see the section headed "Regulations—Regulations Relating to Information Security and Censorship."

We endeavor to eliminate illicit content from our apps and websites. However, government standards and interpretations may change in a manner that could render our current monitoring efforts insufficient. We cannot assure you that our business and operations will be immune from government actions or sanctions in the future. If government actions or sanctions are brought against us, or if there are widespread rumors that government actions or sanctions have been brought against us, our reputation and brand image could be harmed, we may lose users and business partners, our revenue and results of operation may be materially and adversely affected.

We may be required to obtain prior approval from the CSRC for the* [REDACTED] *of our Shares on the Hong Kong Stock Exchange.

On August 8, 2006, six regulatory authorities in mainland China, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, or the SAT, the SAIC, the CSRC, and the SAFE, jointly issued the Regulations on Mergers and Acquisitions

of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**"), which became effective on September 8, 2006, and amended on June 22, 2009. The M&A Rules include, among other things, provisions that purport to require that an offshore special purpose vehicle formed for the purpose of an overseas listing of securities in a mainland Chinese company obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures regarding its approval of overseas listings by special purpose vehicles. However, substantial uncertainty remains regarding the scope and applicability of the M&A Rules to offshore special purpose vehicles.

JunHe LLP, our legal advisor as to the laws of mainland China, is of the opinion that prior CSRC approval for this **[REDACTED]** is not required because our foreign invested enterprises were incorporated as foreign-invested enterprises without involving acquisition of the equity or assets of a "mainland Chinese domestic company," especially mainland Chinese company owned by our Controlling Shareholders or beneficial owners who are mainland Chinese companies or individuals, as such term is defined under the M&A Rules. However, we cannot assure you that the relevant mainland Chinese government authorities, including the CSRC, will reach the same conclusion as JunHe. If the CSRC or other relevant mainland Chinese government authorities subsequently determine that prior CSRC approval is required, we may face regulatory actions or other sanctions from the CSRC or other mainland Chinese regulatory authorities. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur.

***We may be classified as a "resident enterprise in mainland China" for mainland Chinese enterprise income tax purposes, which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your* [REDACTED].**

Under the People's Republic of China Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the "**EIT Law**"), which became effective on January 1, 2008, an enterprise established outside mainland China whose "de facto management body" is located in mainland China is considered a "resident enterprise in mainland China" and will generally be subject to the uniform 25% enterprise income tax rate (the "**EIT rate**"), on its global income. Under the implementation rules of the EIT Law, "de facto management body" is defined as the organization body that effectively exercises management and control over such aspects as the business operations, personnel, accounting and properties of the enterprise.

On April 22, 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People's Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) ("**Circular 82**") that sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups is located within mainland China. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法》(試行)) ("**SAT Bulletin 45**"), to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011 and revised on April 17, 2015. SAT Bulletin 45 clarified certain issues

in the areas of resident status determination, post-determination administration and competent tax authorities' procedures.

Under Circular 82, a foreign enterprise controlled by a mainland Chinese enterprise or mainland Chinese enterprise group is considered a mainland Chinese resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within mainland China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in mainland China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within mainland China; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within mainland China. SAT Bulletin 45 specifies that when provided with a copy of Chinese tax resident determination certificate from a resident Chinese controlled offshore incorporated enterprise, the payer should not withhold 10% income tax when paying the Chinese-sourced dividends, interest, royalties, etc. to the mainland Chinese controlled offshore incorporated enterprise.

Although Circular 82 and SAT Bulletin 45 explicitly provide that the above standards apply to enterprises which are registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups, Circular 82 may reflect SAT's criteria for determining the tax residence of foreign enterprises in general. If mainland Chinese tax authorities determine that we were treated as a resident enterprise in mainland China for mainland Chinese enterprise income tax purposes, the 25% mainland Chinese enterprise income tax on our global taxable income could materially and adversely affect our ability to satisfy any cash requirements we may have.

Laws and regulations in mainland China establish more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in mainland China.

A number of mainland Chinese laws and regulations, including the M&A Rules, the Anti-monopoly Law (《反壟斷法》) promulgated by the Standing Committee of the National People's Congress in August 2007, and the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定》) promulgated by MOFCOM in August 2011 (the "**Security Review Rules**"), have established procedures and requirements that are expected to make merger and acquisition activities in mainland China by foreign investors more time-consuming and complex. These include requirements in some instances that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by enterprises or residents in mainland China acquire affiliated domestic companies. Mainland Chinese laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises "national defense and security" or "national security" concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our

business is in an industry subject to the security review, in which case our future acquisitions in mainland China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

The heightened scrutiny over acquisition transactions by tax authorities in mainland China may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your* [REDACTED] *in us.

Pursuant to the Notice of State Administration for Taxation on Strengthening Administration of Enterprise Income Tax for Share Transfers by Resident Enterprises outside of mainland China (《國家税務總局關於加强非居民企業股權轉讓所得企業所得税管理的通知》) ("**SAT Circular 698**") issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a mainland Chinese resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company (an "**Indirect Transfer**"), and such overseas holding company is located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the mainland Chinese resident enterprise this Indirect Transfer. Using a "substance over form" principle, the mainland Chinese tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring mainland Chinese tax.

On March 28, 2011, the SAT released the SAT Public Notice (2011) No. 24 ("**SAT Public Notice 24**"), which became effective on April 1, 2011, to clarify several issues related to Circular 698. According to SAT Public Notice 24, the term "effective tax" refers to the effective tax on the gain derived from disposition of the equity interests of an overseas holding company; and the term "does not impose income tax" refers to the cases where the gain derived from disposition of the equity interests of an overseas holding company is not subject to income tax in the jurisdiction where the overseas holding company is a resident.

On February 3, 2015, the SAT issued the Announcement of the SAT on Several Issues concerning the Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises (《國家税務總局關於非居民企業問接轉讓財產企業所得税若干問題的公告》) ("**SAT Circular 7**"), which abolished certain provisions in SAT Circular 698, as well as certain other rules providing clarification on SAT Circular 698. SAT Circular 7 provided comprehensive guidelines relating to, and also heightened the mainland Chinese tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of mainland Chinese taxable assets. Under SAT Circular 7, the tax authorities in mainland China are entitled to reclassify the nature of an indirect transfer of mainland Chinese taxable assets, when a non-resident enterprise transfers mainland Chinese taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such mainland Chinese taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of mainland Chinese enterprise income taxes and without any other reasonable commercial purpose. However, SAT Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of mainland Chinese taxable assets by acquiring and selling shares of an overseas listed company which holds such mainland Chinese taxable assets on a public market; and (ii) where there is an indirect

transfer of mainland Chinese taxable assets, but if the non-resident enterprise had directly held and disposed of such mainland Chinese taxable assets, the income from the transfer would have been exempted from enterprise income tax in mainland China under an applicable tax treaty or arrangement.

On October 17, 2017, the SAT issued the Circular on the Source of Deduction of Income Tax for Non-resident Enterprises （《國家税務總局關於非居民企業所得税源泉扣繳有關問題的公告》） ("**SAT Circular 37**"), which became effective on December 1, 2017 and abolish SAT Circular 698 as well as certain provisions in SAT Circular 7. Pursuant to SAT Circular 37, where the party responsible to deduct such income tax did not or was unable to make such deduction, the non-resident enterprise receiving such income should declare and pay the taxes that should have been deducted to the relevant tax authority. The taxable gain is calculated as the income from such transfer net of the net book value of equity interest.

We have conducted and may conduct acquisitions involving changes in corporate structures, and historically our shares were transferred by certain then shareholders to our current shareholders. We cannot assure you that the mainland Chinese tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of mainland Chinese tax authorities with respect thereto. Any mainland Chinese tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may have a negative impact on the value of your **[REDACTED]** in us.

Discontinuation of preferential tax treatments we currently enjoy or other unfavorable changes in tax law could result in additional compliance obligations and costs.

Operating in the high-technology and software industry, a number of our mainland China operating entities enjoy various types of preferential tax treatment according to the prevailing mainland Chinese tax laws. Our mainland Chinese subsidiaries may, if they meet the relevant requirements, qualify for three main types of preferential treatment, which are high and new technology enterprises specially supported by mainland China, software enterprises and key software enterprises within the scope of the mainland Chinese national plan.

For a qualified high and new technology enterprise, the applicable enterprise income tax rate is 15%. The high and new technology enterprise qualification is re-assessed by the relevant authorities every three years. Moreover, a qualified software enterprise is entitled to a tax holiday consisting of a two-year tax exemption beginning with the first profit-making calendar year and a 50% tax reduction for the subsequent three years. The software enterprise qualification is subject to an annual assessment. For a qualified key software enterprise within the scope of the mainland Chinese national plan, the applicable enterprise income tax rate for a calendar year is 10%. The key software enterprise qualification is subject to assessment every two years. The discontinuation of any of the various types of preferential tax treatment we enjoy could materially and adversely affect our results of operations. See the section headed "Description of Major Components of Our Results of Operations—Taxation—Mainland China."

You may be subject to mainland Chinese income tax on dividends from us or on any gain realized on the transfer of our Shares.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between mainland China and your jurisdiction of residence that provides for a different

income tax arrangement, mainland Chinese withholding tax at the rate of 10% is normally applicable to dividends from mainland Chinese sources payable to investors that are resident enterprises outside of mainland Chinese, which do not have an establishment or place of business in mainland China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% (or a lower rate) mainland Chinese income tax if such gain is regarded as income derived from sources within mainland China unless a treaty or similar arrangement otherwise provides. Under the mainland Chinese Individual Income Tax Law and its implementation rules, dividends from sources within mainland China paid to foreign individual investors who are not residents in mainland China are generally subject to a mainland Chinese withholding tax at a rate of 20% and gains from mainland Chinese sources realized by such investors on the transfer of shares are generally subject to 20% mainland Chinese income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and mainland Chinese laws.

Although substantially all of our business operations are in mainland China, it is unclear whether dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, would be treated as income derived from sources within mainland China and as a result be subject to mainland Chinese income tax if we are considered a mainland Chinese resident enterprise. If mainland Chinese income tax is imposed on gains realized through the transfer of our Shares or on dividends paid to our non-resident investors, the value of your **[REDACTED]** in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with mainland China may not qualify for benefits under such tax treaties or arrangements.

The mainland Chinese government's pilot plan to replace the business tax with a VAT may subject us to pay more taxes, which could have a material adverse effect on our financial condition and results of operations.

Pursuant to the People's Republic of China Provisional Regulations on Business Tax (《中華人民共和國營業税暫行條例》) promulgated by the State Council on December 13, 1993, taxpayers providing taxable services falling under the category of service industry in mainland China are required to pay a business tax at a normal tax rate of 5% of their revenues. On November 16, 2011, the Ministry of Finance and the SAT promulgated the Pilot Plan for Imposition of Value-Added Tax to Replace Business Tax (《營業税改徵增值税試點方案》). Pursuant to this plan and relevant notices, from January 1, 2012, a VAT was imposed to replace the business tax in the transport and shipping industry and some of the modern service industries in certain pilot regions. Under the pilot plan, a VAT rate of 6% applies to some modern service industries. On March 23, 2016, the Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (《關於全面推開營業税改徵增值税試點的通知》) was issued, pursuant to which the pilot plan for the replacement of business tax with VAT was expanded to all regions and industries as of May 1, 2016. While our mainland Chinese operational entities' main businesses are not currently subject to the higher VAT tax rate, we cannot assure you that they will not be subject to the higher VAT tax rate in the future.

Mainland Chinese regulations of loans and direct investment by offshore holding companies to mainland Chinese entities may delay or prevent us from using the* [REDACTED] *of the* [REDACTED] *to make loans or additional capital contributions to our mainland Chinese subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may transfer funds to our mainland Chinese subsidiaries or finance our mainland Chinese subsidiaries by means of Shareholders' loans or capital contributions after completion of the **[REDACTED]**. Any loans to our mainland Chinese subsidiaries, which are foreign-invested enterprises ("**FIEs**"), cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with the SAFE or its local counterparts.

Furthermore, any capital contributions we make to our mainland Chinese subsidiaries shall be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our mainland Chinese subsidiaries in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) ("**Circular 19**"), which will replace Circular 142 from June 1, 2015. Circular 19, however, allows foreign invested enterprises in mainland China to use their registered capital settled in RMB converted from foreign currencies to make equity investments, but the registered capital of a foreign invested company settled in RMB converted from foreign currencies remains not allowed to be used for investment in the security markets, offering entrustment loans or purchases of any investment properties, unless otherwise regulated by other laws and regulations. Circular 19 may limit our ability to transfer the **[REDACTED]** from the **[REDACTED]** to our mainland Chinese subsidiaries and convert the **[REDACTED]** into RMB.

We may be subject to penalties, including restriction on our ability to inject capital into our mainland Chinese subsidiaries and our mainland Chinese subsidiaries' ability to distribute profits to us, if our resident shareholders or beneficial owners in mainland China fail to comply with relevant mainland Chinese foreign exchange regulations.

The SAFE issued the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) ("**Circular 37**"), effective on July 4, 2014, which replaced the previous Notice on Relevant Issues Concerning Foreign Exchange Administration for the People's Republic of China Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) ("**Circular 75**"). Circular 37 requires mainland Chinese residents, including mainland Chinese individuals and institutions, to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore special purpose vehicle, for the purpose of overseas investment and financing, with such mainland Chinese residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. In addition, such residents in mainland China must update their foreign exchange registrations with the SAFE or its local branches when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such mainland Chinese individual shareholder, name and operation

term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a mainland Chinese resident as determined by Circular 37, fails to fulfill the required foreign exchange registration with the local SAFE branches, the mainland Chinese subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its mainland Chinese subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under mainland Chinese laws for evasion of applicable foreign exchange restrictions.

We may not be fully informed of the identities of all our shareholders or beneficial owners who are mainland Chinese residents, and therefore, we may not be able to identify all our shareholders or beneficial owners who are mainland Chinese residents to ensure their compliance with Circular 37 or other related rules. In addition, we cannot provide any assurance that all of our shareholders and beneficial owners who are residents in mainland China will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by the Circular 37 or other related rules in a timely manner. Even if our shareholders and beneficial owners who are residents in mainland China comply with such request, we cannot provide any assurance that they will successfully obtain or update any registration required by the Circular 37 or other related rules in a timely manner due to many factors, including those beyond our and their control. If any of our shareholders who is a resident in mainland China as determined by Circular 37 fails to fulfill the required foreign exchange registration with the local SAFE branches, our mainland Chinese subsidiaries may be prohibited from distributing their profits and dividends to us or from carrying out other subsequent cross-border foreign exchange activities, and we may be restricted in our ability to contribute additional capital to our subsidiaries in mainland China, which may adversely affect our business.

We principally rely on dividends and other distributions on equity paid by our subsidiaries in mainland China to fund any cash and financing requirements we may have. Any limitation on the ability of our mainland Chinese subsidiaries to make payments to us could have a material adverse effect on our ability to conduct our business or financial condition.

We are a holding company, and we principally rely on dividends and other distributions on equity that may be paid by our subsidiaries in mainland China and remittances from our Consolidated Affiliated Entities, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to the holders of our ordinary shares and service any debt we may incur. If our mainland Chinese subsidiaries or our Consolidated Affiliated Entities incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

Under mainland Chinese laws and regulations, wholly foreign-owned enterprises in mainland China, may pay dividends only out of their retained earnings as determined in accordance with mainland Chinese accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a

fund reaches 50% of its registered capital. At the discretion of the board of director of the wholly foreign-owned enterprise, it may allocate a portion of its after-tax profits based on mainland Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends. Any limitation on the ability of our Consolidated Affiliated Entities to make remittance to our wholly-owned subsidiaries in mainland China to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends, or otherwise fund and conduct our business.

***Restrictions on the remittance of RMB into and out of mainland China and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your* [REDACTED].**

The mainland Chinese government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of mainland China. We receive a considerable portion of our revenue in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our subsidiaries in mainland China. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments to certain suppliers and payments of dividends declared in respect of our Shares, if any. Shortages in the availability of foreign currency may restrict the ability of our subsidiaries in mainland China to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under existing mainland Chinese foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of mainland China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The mainland Chinese government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of mainland China.

Fluctuations in exchange rates could result in foreign currency exchange losses.

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the mainland Chinese government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. In July 2005, the mainland Chinese government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, the exchange rate between the Renminbi and the U.S. dollar had been stable and traded within a narrow band. In June 2010, the People's Bank of China increased the flexibility of the exchange rate and between June 30, 2010 and December 31, 2013, the value of the Renminbi appreciated approximately 12.0% against the U.S. dollar, although the value of the Renminbi

depreciated approximately 2.5% against the U.S. dollar in 2014. In August 2015, the People's Bank of China changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the Renminbi depreciated approximately 5.8% against the U.S. dollar. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right ("**SDR**") and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen, and the British pound. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the mainland Chinese government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

The **[REDACTED]** from the **[REDACTED]** will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may result in the decrease in the value of our **[REDACTED]** from the **[REDACTED]**. Conversely, any depreciation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our Shares in foreign currency terms.

It may be difficult to effect service of process upon us or our Directors or officers named in this document who reside in mainland China or to enforce non-mainland China court judgments against them in mainland China.

Most of our assets are situated in mainland China and most of our Directors and officers named in this document reside in, and most of their respective assets are located in, mainland China. As a result, it may be difficult to effect service of process outside mainland China upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. mainland China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in mainland China any judgments obtained from courts outside of mainland China.

On July 14, 2006, Hong Kong and mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**Arrangement**") and revised on July 3, 2008, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in mainland China. Similarly, a party with a final judgment rendered by a mainland Chinese court requiring payment of money in a civil and commercial case pursuant to a

choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a mainland Chinese court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in mainland China if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the revised Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

We face risks related to natural disasters, health epidemics and other outbreaks of contagious diseases.

Our business could be adversely affected by natural disasters or outbreaks of epidemics. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in mainland China or any other market in which we do business could severely disrupt our business operations by damaging our network infrastructure or information technology system or impacting the productivity of our workforce, which may adversely affect our financial condition and results of operations. We have not adopted any written contingency plans to combat any future natural disasters or outbreaks of avian flu, H1N1 flu, SARS or any other epidemic.

Risks Relating to Our Contractual Arrangements

If the mainland Chinese government finds that the agreements that establish the structure for operating our business do not comply with mainland Chinese laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.

Current mainland Chinese laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunications services and other related businesses, including the provision of internet information and cultural services. In particular, under the Guidance Catalog of Industries for Foreign Investment, the operation of certain of our internet services falls into the value-added telecommunications services business and is considered "restricted," and the operation of online and mobile games, provision of audio-visual program services and online reading services to the public fall into the internet cultural services business and are considered "prohibited." We are a company incorporated under the laws of the Cayman Islands. To comply with mainland Chinese laws and regulations, we conduct our internet-related business in mainland China through a number of VIEs incorporated in mainland China. The VIEs are owned by mainland Chinese citizens who are our Founder, Co-founders or shareholders, with whom we have contractual arrangements. The contractual arrangements give us effective control over each of the VIEs and enable us to obtain substantially all of the economic benefits arising from the VIEs as well as consolidate the financial results of the VIEs in our results of operations. Although the structure we have adopted is consistent with longstanding industry practice, and is commonly adopted by comparable companies in mainland China, the mainland Chinese government may not agree that these arrangements comply with mainland Chinese licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. These Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for the operations of our Relevant Businesses.

JunHe has advised us that (i) the ownership structures of our material wholly-foreign owned enterprises and our material VIEs in mainland China, both currently and immediately after giving effect to this **[REDACTED]**, do not and will not violate any applicable mainland Chinese law, regulations or rules currently in effect, and (ii) subject to the risks as disclosed in the section headed "—Risks Relating to Our Contractual Arrangements" and the section headed "Contractual Arrangements," each agreement of the contractual arrangements between our material wholly-foreign owned enterprises, our material VIEs and their respective equity holders governed by mainland Chinese law are valid, binding and enforceable in accordance with their terms and applicable mainland Chinese laws and regulations currently in effect and does not violate any applicable mainland Chinese law currently in effect. There are, however, substantial uncertainties regarding the interpretation and application of current or future mainland Chinese laws and regulations. The relevant regulatory authorities in mainland China have broad discretion in determining whether a particular contractual structure violates mainland Chinese laws and regulations. Thus, we cannot assure you that the mainland Chinese government will not ultimately take a view contrary to the opinion of JunHe. If we are found in violation of any mainland Chinese laws or regulations or if the contractual arrangements among our material wholly-foreign owned enterprises, our material Consolidated Affiliated Entities and their respective equity holders are determined as illegal or invalid by any mainland Chinese court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoke the agreements constituting the contractual arrangements:
- revoke our business and operating licenses;
- require us to discontinue or restrict operations;
- restrict our right to collect revenue;
- shut down all or part of our websites or services;
- levy fines on us and/or confiscate the proceeds that they deem to have been obtained through non-compliant operations;
- require us to restructure the operations in such a way as to compel us to establish a new enterprise, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- impose additional conditions or requirements with which we may not be able to comply; or
- take other regulatory or enforcement actions that could be harmful to our business.

Furthermore, any of the assets under the name of any record holder of equity interest in material Consolidated Affiliated Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the contractual arrangements. In addition, new mainland Chinese laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct internet-related businesses. In addition, if the imposition of any of these penalties causes us unable to direct the activities of such Consolidated Affiliated Entities and its subsidiary or the right to receive their economic benefits, we would no longer be able to consolidate such

Consolidated Affiliated Entities into our financial statements, thus adversely affect our results of operation.

Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of draft People's Republic of China Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

MOFCOM published a discussion draft of the proposed Foreign Investment Law ("**Draft Foreign Investment Law**") in January 2015 aiming to, upon its enactment, replace the trio of existing laws regulating foreign investment in mainland China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Draft Foreign Investment Law is currently in draft form only. While MOFCOM solicited comments on the Draft Foreign Investment Law in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects. See the section headed "Contractual Arrangements—Development in Legislation on Foreign Investment in mainland China" for further details.

Among other things, the Draft Foreign Investment Law expands the definition of foreign investment and introduces the principle of "actual control" in determining whether a company is considered a foreign-invested enterprise ("**FIE**"). Once an entity is determined to be an FIE, it will be subject to the foreign investment restrictions or prohibitions set forth in a "negative list," to be separately issued by the State Council later, if the FIE is engaged in the industry listed in the negative list, which calls for market entry clearance by the MOFCOM.

Under the Draft Foreign Investment Law, variable interest entities, or consolidated affiliated entities, that are controlled via contractual arrangement would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors.

Although the Draft Foreign Investment Law was released for consultation purposes, there is substantial uncertainty regarding the Draft Foreign Investment Law, including with respect to its final content (especially the provisions dealing with VIE structure), adoption timeline or effective date. Lei Jun, our executive Director, Founder, Chairman and Chief Executive Officer, is a Chinese national and will beneficially own **[REDACTED]**% of the voting power of our outstanding share capital immediately after the completion of the **[REDACTED]**, and is therefore the "actual controller" of the Company. However, JunHe advised that it is still unclear as at the Latest Practicable Date as to (i) what level of "actual control" is required to qualify as a domestic enterprise; (ii) how domestic enterprises operated by foreign investors under a contractual arrangement are to be regulated; and (iii) what businesses are to be classified as "restricted business" or "prohibited business" in the negative list under the Draft Foreign Investment Law.

If, upon its enactment, the current Draft Foreign Investment Law (i) does not recognize our structure under our Contractual Arrangements as domestic investment; (ii) does not provide any preferential treatment to investors from Hong Kong, Macau and Taiwan; (iii) requires foreign-invested enterprises to apply for access permission, a government permit that allows foreign investors to invest in "restricted" and/or "prohibited" businesses on the negative list, our Contractual Arrangements may

be regarded as invalid and illegal if we have not obtained such access permission. As a result, our Group may be required to dispose of the Relevant Businesses (as defined in the section headed "**Contractual Arrangements**") in mainland China and our Group would not be able to continue to conduct the Relevant Business. For details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our Consolidated Affiliated Entities, please refer to the section headed "Contractual Arrangements—Development in Legislation on Foreign Investment in mainland China" in this document.

Given that the relevant government authorities have broad discretion in interpreting the foreign investment laws and there are uncertainties as to the three possible approaches proposed in the Explanatory Notes on the treatment of existing contractual arrangements before the Draft FIL becomes effective as further described in the section headed "Contractual Arrangements—Development in Mainland China Legislation on Foreign Investment" in this document, in the worst case scenario, the Contractual Arrangements may be regarded by the relevant government authorities as invalid and illegal and the Relevant Businesses may be ordered by the relevant government authorities to be discontinued under the existing structure and may not be sustainable in the event that: (i) the operation of the Relevant Businesses were to be recognized on the "negative list," (ii) our Contractual Arrangement were to not be deemed as a domestic investment by the relevant government authorities, and (iii) there were to be no special treatment for the investors from Hong Kong, Macau and Taiwan who control a domestic enterprise. As a result, we will not be able to operate the Relevant Businesses through the Contractual Arrangements and will lose our rights to receive the economic benefits of our material wholly-foreign owned enterprises and our material Consolidated Affiliated Entities under the Contractual Arrangements and the financial results of our material Consolidated Affiliated Entities will no longer be consolidated into that of our Group and we will have to derecognize their assets and liabilities according to the relevant accounting standards. In such case, the Stock Exchange may also consider our Company to be no longer suitable for **[REDACTED]** on the Stock Exchange and delist our Shares.

In addition, on September 3, 2016, the Decision of the Standing Committee of the National People's Congress on Revising Four Laws including the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《全國人民代表大會常務委員會關于修改<中華人民和國外資企業法>等四法律的決定》) was promulgated and became effective on October 1, 2016. Please refer to the section headed "Regulations—Regulations Relating to Wholly Foreign-Owned Enterprise" for further details.

Our contractual arrangements may not be as effective in providing operational control as direct ownership and our viable interest entities shareholders may fail to perform their obligations under our contractual arrangements.

Since mainland Chinese laws limit foreign equity ownership in the Relevant Businesses in mainland China, we operate our Relevant Businesses in mainland China through our Consolidated Affiliated Entities, in which we have no ownership interest and rely on a series of contractual arrangements with our Consolidated Affiliated Entities and their respective equity holders to control and operate these businesses. Our revenue and cash flow from our Relevant Businesses are attributed to our Consolidated Affiliated Entities. The contractual arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our Consolidated Affiliated Entities, which, in turn, could effect

changes, subject to any applicable fiduciary obligations at the management level. However, under the contractual arrangements, as a legal matter, if our Consolidated Affiliated Entities or their respective equity holders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under mainland Chinese laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements, which could materially and adversely affect our results of operations and financial condition.

We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could, render us unable to conduct some or all of our business operations and constrain our growth.

Although the significant majority of our revenues are generated, and the significant majority of our operational assets are held, by our wholly-foreign owned enterprises, which are our subsidiaries, our Consolidated Affiliated Entities hold licenses and approvals and assets that are necessary for our Relevant Business operations, as well as equity interests in a series of our portfolio companies, to which foreign investments are typically restricted or prohibited under applicable mainland Chinese law. The Contractual Arrangements contain terms that specifically obligate Consolidated Affiliated Entities equity holders to ensure the valid existence of the Consolidated Affiliated Entities and restrict the disposal of material assets or any equity interest of the Consolidated Affiliated Entities. However, in the event the Consolidated Affiliated Entities equity holders breach the terms of these contractual arrangements and voluntarily liquidate our Consolidated Affiliated Entities, or any of our Consolidated Affiliated Entities declares bankruptcy and all or part of its assets become subject to liens or rights of third-party creditors, or are otherwise disposed of without our consent, we may be unable to conduct some or all of our Relevant Business operations or otherwise benefit from the assets held by the Consolidated Affiliated Entities, which could have a material adverse effect on our Relevant Business, financial condition and results of operations. Furthermore, if any of our Consolidated Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, its equity holders or unrelated third-party creditors may claim rights to some or all of the assets of such Consolidated Affiliated Entities, thereby hindering our ability to operate our business as well as constrain our growth.

The contractual arrangements with our Consolidated Affiliated Entities may be subject to scrutiny by the tax authorities in mainland China. Any adjustment of related party transaction pricing could lead to additional taxes, and therefore substantially reduce our consolidated profit and the value of your **[REDACTED].**

The tax regime in mainland China is rapidly evolving and there is significant uncertainty for taxpayers in mainland China as mainland Chinese tax laws may be interpreted in significantly different ways. The mainland Chinese tax authorities may assert that we or our subsidiaries or Consolidated Affiliated Entities or their equity holders owe and/or are required to pay additional taxes on previous or future revenue or income. In particular, under applicable mainland Chinese laws, rules and regulations, arrangements and transactions among related parties, such as the contractual arrangements with our Consolidated Affiliated Entities, may be subject to audit or challenge by the mainland Chinese tax

authorities. If the mainland Chinese tax authorities determine that any contractual arrangements were not entered into on an arm's length basis and therefore constitute a favorable transfer pricing, the mainland Chinese tax liabilities of the relevant subsidiaries and/or Consolidated Affiliated Entities and/or equity holders of Consolidated Affiliated Entities could be increased, which could increase our overall tax liabilities. In addition, the mainland Chinese tax authorities may impose late payment interest. Our profit may be materially reduced if our tax liabilities increase.

The equity holders, directors and executive officers of the Consolidated Affiliated Entities, as well as our employees who execute other strategic initiatives may have potential conflicts of interest with our Company.

The laws of mainland China provide that a director and an executive officer owes a fiduciary duty to the company he or she directs or manages. The directors and executive officers of the Consolidated Affiliated Entities, including Lei Jun, our executive Director, Founder, Chairman and Chief Executive Officer, must act in good faith and in the best interests of the variable interest entities and must not use their respective positions for personal gain. On the other hand, as a director of our Company, Lei Jun has a duty of care and loyalty to our Company and to our shareholders as a whole under Cayman Islands law. We control our Consolidated Affiliated Entities through contractual arrangements and the business and operations of our Consolidated Affiliated Entities are closely integrated with the business and operations of our subsidiaries. Nonetheless, conflicts of interests for these individuals may arise due to dual roles both as directors and executive officers of the Consolidated Affiliated Entities and as directors or employees of our Company, and may also arise due to dual roles both as Consolidated Affiliated Entities equity holders and as directors or employees of our Company.

We cannot assure you that these individuals will always act in the best interests of our Company should any conflicts of interest arise, or that any conflicts of interest will always be resolved in our favor. We also cannot assure you that these individuals will ensure that the Consolidated Affiliated Entities will not breach the existing contractual arrangements. If we cannot resolve any such conflicts of interest or any related disputes, we would have to rely on legal proceedings to resolve these disputes and/or take enforcement action under the contractual arrangements. There is substantial uncertainty as to the outcome of any such legal proceedings. See the section headed "—We may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could, render us unable to conduct some or all of our business operations and constrain our growth" above.

We conduct our business operation in mainland China through our Consolidated Affiliated Entities by way of the contractual arrangements, but certain of the terms of the contractual arrangements may not be enforceable under mainland Chinese laws.

All the agreements which constitute the contractual arrangements are governed by mainland Chinese laws and provide for the resolution of disputes through arbitration in mainland China. Accordingly, these agreements would be interpreted in accordance with mainland Chinese laws and disputes would be resolved in accordance with mainland Chinese legal procedures. The legal environment in mainland China is not as developed as in other jurisdictions and uncertainties in the mainland Chinese legal system could limit our ability to enforce the contractual arrangements. In the event that we are unable to enforce the contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control

over our Consolidated Affiliated Entities, and our ability to conduct our Relevant Business and our financial condition and results of Relevant Business operations may be materially and adversely affected.

The contractual arrangements contain provisions to the effect that the arbitral body may award remedies over the shares and/or assets of our Consolidated Affiliated Entities, injunctive relief and/or winding up of our Consolidated Affiliated Entities. These agreements also contain provisions to the effect that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, under mainland Chinese laws, these terms may not be enforceable. Under mainland Chinese laws, an arbitral body does not have the power to grant injunctive relief or to issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in our Consolidated Affiliated Entities in case of disputes. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in mainland China. Mainland Chinese laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in our Consolidated Affiliated Entities in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the contractual arrangements by our Consolidated Affiliated Entities and/or their respective equity holders, and if we are unable to enforce the contractual arrangements, we may not be able to exert effective control over our Consolidated Affiliated Entities, which could negatively affect our ability to conduct our business.

If we exercise the option to acquire equity ownership of our Consolidated Affiliated Entities, the ownership transfer may subject us to certain limitations and substantial costs.

Pursuant to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (《外商投資電信企業管理規定》) (the "**FITE Regulations**") promulgated by the State Council, foreign investors are not allowed to hold more than 50% of the equity interests of any company providing value-added telecommunications services, including ICP services. In addition, the main foreign investor who invests in a value-added telecommunications business in mainland China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently none of the applicable mainland Chinese laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. Although we have taken many measures to meet the Qualification Requirements, we still face the risk of not satisfying the requirement promptly. If when the mainland Chinese laws allow foreign investors to invest in value-added telecommunications enterprises in mainland China, we may be unable to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements, or if we attempt to unwind the Contractual Arrangements before we are able to comply with the Qualification Requirements we may be ineligible to operate our value-added telecommunication enterprises and may be forced to suspend their operations, which could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the Contractual Arrangements, we have the exclusive right to purchase all or any part of the equity interests in our Consolidated Affiliated Entities from the respective equity holders for a nominal price, which is equal to the loan granted by our WFOEs to the equity holders of the Consolidated Affiliated Entity, unless the relevant government authorities or mainland Chinese laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request. Subject to relevant laws and regulations, the respective equity holders shall return any amount of purchase price they have received to our WFOEs. If such a return of

purchase price takes place, the competent tax authority may require our WFOEs to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

Risks Relating to the [REDACTED]

There has been no prior public market for our Class B Shares and the liquidity and market price of our Class B Shares may be volatile.

Prior to completion of the **[REDACTED]**, there has been no public market for our Class B Shares. There can be no guarantee that an active trading market for our Class B Shares will develop or be sustained after completion of the **[REDACTED]**. The **[REDACTED]** is the result of negotiations between our Company and the **[REDACTED]** (for themselves and on behalf of the **[REDACTED]**), which may not be indicative of the **[REDACTED]** at which our Class B Shares will be traded following completion of the **[REDACTED]**. The market price of our Class B Shares may drop below the **[REDACTED]** at any time after completion of the **[REDACTED]**.

The* [REDACTED] *of our Class B Shares may be volatile, which could result in substantial losses to you.

The **[REDACTED]** of our Class B Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in mainland China that have listed their securities in Hong Kong may affect the volatility in the **[REDACTED]** our Class B Shares. A number of mainland China-based companies have listed their securities, and some are in the process of preparing for **[REDACTED]** their securities, in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their **[REDACTED]**. The trading performances of the securities of these companies at the time of or after their **[REDACTED]** may affect the overall **[REDACTED]** sentiment towards mainland China-based companies listed in Hong Kong and consequently may impact the trading performance of our Class B Shares. These broad market and industry factors may significantly affect the market price and volatility of our Class B Shares, regardless of our actual operating performance.

The concentration of our Share ownership limits our shareholders' ability to influence corporate matters.

Our Company is controlled through weighted voting rights. Each Class A Share has 10 votes per share and each Class B Share has one vote per share except with respect to voting on resolutions with respect to a very limited number of Reserved Matters, in relation to which, each share is entitled to one vote. Immediately after the completion of the **[REDACTED]**, Lei Jun and Lin Bin will be the WVR Beneficiaries and will collectively beneficially own all of our issued and outstanding Class A Shares, which represent approximately **[REDACTED]**% of the voting power of our outstanding share capital, for resolutions in relation to matters other than the Reserved Matters, in relation to which each Share carries one vote. Lei Jun and Lin Bin therefore have significant influence over management and affairs of the Company, and over all matters requiring shareholder approval, including the election of directors (excluding the appointment, election or removal of any independent non-executive Director) and significant corporate transactions, such as a merger or other sale of our Company or our assets, for the foreseeable future. In addition, because each Class B Share carries only one tenth of the voting rights

of each Class A Share (except as required by applicable law and in relation to the Reserved Matters), the issuance of the Class B Shares, including future stock-based acquisition transactions and employee equity incentive programs, could prolong the duration of the WVR Beneficiary's ownership of our voting power immediately after the completion of the **[REDACTED]** and their ability to determine the outcome of most matters submitted to a vote of our Shareholders. For further details about our shareholding structure, see section headed "Share Capital—Weighted Voting Rights Structure."

This concentrated control limits or severely restricts our Shareholders' ability to influence corporate matters and, as a result, we may take actions that our Shareholders do not view as beneficial. As a result, the market price of our **[REDACTED]** could be adversely affected.

Holders of our Class A Shares may exert substantial influence over us and may not act in the best interests of our independent Shareholders.

Following the completion of the **[REDACTED]**, the WVR Beneficiaries will be in a position to exert significant influence over the affairs of our Company and will be able to influence the outcome of any shareholders' resolutions, irrespective of how other shareholders vote. The interests of the holders of our Class A Shares may not necessarily be aligned with the interests of our Shareholders as a whole, and this concentration of voting power may also have the effect of delaying, deferring or preventing a change in control of our Company.

The actual or perceived sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and substantial shareholders, could adversely affect the market price of our Class B Shares.

Future sales of a substantial number of our Shares, especially by our Directors, executive officers and substantial shareholders, or the perception or anticipation of such sales, could negatively impact the market price of our Class B Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by our substantial shareholders are subject to certain **[REDACTED]** periods beginning on the date on which **[REDACTED]** our Class B Shares commences on the Stock Exchange. While we currently are not aware of any intention of such persons to dispose of significant amounts of their Class B Shares after the expiry of the **[REDACTED]** periods, we cannot assure you that they will not dispose of any Class B Shares they may own now or in the future.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the **[REDACTED]** of our Class B Shares is higher than the net tangible book value per Class B Share of our Shares immediately prior to the **[REDACTED]**, **[REDACTED]** of our Class B Shares in the **[REDACTED]** will experience an immediate dilution. If we issue additional Shares in the future, **[REDACTED]** of our Class B Shares in the **[REDACTED]** may experience further dilution in their shareholding percentage.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third-party sources, including the industry expert reports, contained in this document.

This document, particularly the section headed "Industry Overview," contains information and statistics relating to the smartphone, consumer IoT and internet service industries as well as retail

markets. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the **[REDACTED]**, the Joint Sponsors, the **[REDACTED]** or any other party involved in the **[REDACTED]**, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

***You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the* [REDACTED].**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the **[REDACTED]**. Prior to the publication of this document, there has been press and media coverage regarding us and the **[REDACTED]**. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

In preparation for the **[REDACTED]**, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and exemption from the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an **[REDACTED]** must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Our Group's management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of our Group are primarily based in mainland China. The Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company and the Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

(a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorized representatives, namely, Lin Bin, an executive Director, and So Ka Man, joint company secretary to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our authorized representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorized representatives are authorized to communicate on our behalf with the Stock Exchange;

(b) we will implement a policy to provide the contact details of each Director (such as mobile phone numbers, office phone numbers, residential phone numbers, email addresses and fax numbers) to each of the authorized representatives and to the Stock Exchange. This will ensure that each of the authorized representatives and the Stock Exchange will have the means to contact all the Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with the Directors when they are traveling;

(c) we will ensure that all Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;

(d) we have retained the services of a compliance advisor, being Guotai Junan Capital Limited (the "**Compliance Advisor**"), in accordance with Rule 8A.33 and Rule 8A.34 of the Listing Rules. The Joint Sponsors submit, on behalf of our Company, that the Compliance Advisor will serve as an additional channel of communication with the Stock Exchange in addition to the authorized representatives of our Company. The Compliance Advisor will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Advisor has prompt access to our Company's

authorized representatives and Directors who will provide to the Compliance Advisor such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor's duties. The Compliance Advisor will also provide advice in compliance with Rule 8A.34 of the Listing Rules; and

(e) meetings between the Stock Exchange and the Directors could be arranged through the authorized representatives or the Compliance Advisor, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the Compliance Advisor in accordance with the Listing Rules.

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Pursuant to Note 1 to Rules 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a Member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note 2 to Rule 3.28 of the Listing Rules, in assessing "relevant experience," the Stock Exchange will consider the individual's:

(a) length of employment with the **[REDACTED]** and other issuers and the roles he or she played;

(b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

Our Company has appointed Steve Lin and So Ka Man of Tricor Services Limited as joint company secretaries of our Company. So Ka Man is a Chartered Secretary and an Associate of both of The Hong Kong Institute of Chartered Secretaries and therefore meets the qualification requirements under Note 1 to Rule 3.28 of the Listing Rules and is in compliance with Rule 8.17 of the Listing Rules.

Steve Lin joined our Group in February 2018 as the Director of Corporate Finance. Steve Lin has over 13 years of experience in business consulting and investment banking. Prior to joining the Group, he worked at McKinsey&Company from July 2005 to August 2008, Macquarie Capital

Securities Limited from September 2008 to August 2010 and Deutsche Bank Group from September 2010 to February 2018.

Accordingly, while Steve Lin does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Steve Lin may be appointed as a joint company secretary of our Company.

The waiver [was granted] for a three-year period on the condition that So Ka Man, as a joint company secretary of our Company, will work closely with, and provide assistance to, Steve Lin in the discharge of his duties as a joint company secretary and in gaining the relevant experience under Rule 3.28 of the Listing Rules. The waiver will be revoked immediately if So Ka Man ceases to provide assistance to Steve Lin as the joint company secretary for the three-year period after the **[REDACTED]**. In addition, Steve Lin will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance his knowledge of the Listing Rules during the three-year period from the **[REDACTED]**. Our Company will further ensure that Steve Lin has access to the relevant training and support that would enhance his understanding of the Listing Rules and the duties of a company secretary of an **[REDACTED]** on the Stock Exchange. Immediately before the end of the three-year period, the qualifications and experience of Steve Lin and the need for on-going assistance of So Ka Man will be further evaluated by our Company. We will liaise with the Stock Exchange to enable it to assess whether Steve Lin, having benefited from the assistance of So Ka Man for the preceding three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of Rule 3.28 Note 2 of the Listing Rules so that a further waiver will not be necessary.

Please refer to the section headed "Directors and Senior Management" for further information regarding the qualifications of Steve Lin and So Ka Man.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute continuing connected transactions of our Company under the Listing Rules following the completion of the **[REDACTED]**, including transactions that will be treated as connected transactions as a result of us agreeing to treat Xiaomi Finance as a connected subsidiary. We have applied to the Stock Exchange for[, and the Stock Exchange has granted,] a waiver from strict compliance with (where applicable) (i) the announcement and independent shareholders' approval requirements, (ii) the annual cap requirement, and (iii) the requirement of limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see the section headed "Connected Transactions."

WAIVER AND EXEMPTION IN RELATION TO THE PRE-[REDACTED] ESOP

Rule 17.02(1)(b) of, and paragraph 27 of Part A of Appendix 1 to, the Listing Rules, and paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, requires our Company to disclose, among other things, details of the number,

description and amount of any shares in or debentures of our Company which any person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for shares or debentures subscribed for under it, the consideration (if any) given or to be given for it or for the right to it and the names and addresses of the persons to whom it was given (the "**Share Option Disclosure Requirements**").

As of May 1, 2018, our Company had granted options and restricted share units ("RSUs") under the Pre-**[REDACTED]** ESOP to over 5,500 grantees, including the members of the directors and the senior management and other employees of our Group, to subscribe for an aggregate of **[REDACTED]** Class B ordinary share of US$0.000025 par value each, representing **[REDACTED]**% of the total number of Shares in issue immediately after completion of the **[REDACTED]** (calculated at one Share one vote basis, assuming [the **[REDACTED]** is not exercised and] no Shares are issued pursuant to the exercise of options granted under the Pre-**[REDACTED]** ESOP) on the terms set out in the section headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" in Appendix IV. The Company will not make any further grants under the Pre-**[REDACTED]** ESOP after the **[REDACTED]**.

In addition, Pinecone International granted options under the Pinecone Share Option Scheme I to 37 grantees, all of whom are employees of the Group, to subscribe for an aggregate of 3,806,649 ordinary shares of Pinecone International of par value of US$0.0001 each ("**Pinecone Shares**"), representing approximately 15% of the total issued and outstanding Pinecone Shares immediately after completion of the **[REDACTED]**, on the terms set out in the section headed "Statutory and General Information—Share Option Schemes—Pinecone Share Option Scheme I" in Appendix IV. All options were granted between May 18, 2015 and March 26, 2018. No options under the Pinecone Share Option Scheme I have been granted to Directors, senior managers or other connected persons of the Company. Pinecone International will not make any further grants under the Pinecone Share Option Scheme I after the **[REDACTED]**.

Our Company has applied to the Stock Exchange and the SFC for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of, and paragraph 27 of Part A of Appendix 1 to, the Listing Rules, and (ii) a certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance exempting our Company from strict compliance with the disclosure requirements under paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, on the grounds that strict compliance with the above requirements would be unduly burdensome for our Company for the following reasons:

(a) given that over 5,500 grantees are involved, strict compliance with such disclosure requirements in setting out full details of all the grantees under the Pre-**[REDACTED]** ESOP and Pinecone Share Option Scheme I in the **[REDACTED]** on an individual basis would be costly and unduly burdensome for our Company in light of a significant increase in cost and timing for information compilation, **[REDACTED]** preparation and printing;

(b) as of the Latest Practicable Date, the grantees under the Pre-**[REDACTED]** ESOP and Pinecone Share Option Scheme I consist of (i) 10 management grantees who are directors and members of the senior management of our Company, and (ii) the remaining grantees who are employees of our Group, and as such, strict compliance with the Share Option Disclosure Requirements to disclose names, addresses, and entitlements on an individual

basis will require substantial number of pages of additional disclosure that does not provide any material information to the **[REDACTED]** public;

(c) given the nature of the business of our Company, it is extremely important for our Company to recruit and retain talents and the success of our Company's long-term development plan will very much depend on the loyalty and contribution of the grantees;

(d) the Pre-**[REDACTED]** ESOP and Pinecone Share Option Scheme I form a critical component in the compensation of the employees of our Group, and the information relating to the share options granted to the grantees is highly sensitive and confidential to our Group;

(e) the full disclosure of the details of the grantees (which include their addresses) as well as the share options granted to each of them, would provide our Group's competitors with our Group's employees' compensation details and facilitate their soliciting activities which could adversely impact our Group's ability to recruit and retain valuable personnel;

(f) the full disclosure on the share options granted to each of the grantees would also allow the employees of our Group to gain access to the others' compensation, which could negatively affect the employees' morale, give rise to negative internal competitions, and lead to an increase in the costs for recruitment and retention;

(g) the disclosure of the personal details of each grantee, including the number of options granted, would require obtaining consent from all the grantees in order to comply with personal data privacy laws and principles which would be unduly burdensome for us given the number of grantees;

(h) the grant and exercise in full of the options under the Pre-**[REDACTED]** ESOP and Pinecone Share Option Scheme I will not cause any material adverse impact in the financial position of our Company;

(i) non-compliance with the above disclosure requirements would not prevent our Company from providing its potential **[REDACTED]** with an informed assessment of the activities, assets, liabilities, financial position, management and prospects of our Company; and

(j) material information relating to the options under the Pre-**[REDACTED]** ESOP and Pinecone Share Option Scheme I will be disclosed in the **[REDACTED]**, including the total number of Class B Shares subject to the Pre-**[REDACTED]** ESOP and the total number of Pinecone Shares subject to the Pinecone Share Option Scheme I, the exercise price per share, the potential dilutive effect on the shareholding and impact on earnings per share upon full exercise of the options granted under the Pre-**[REDACTED]** ESOP and the Pinecone Share Option Scheme I. The Directors consider that the information that is reasonably necessary for the potential **[REDACTED]** to make an informed assessment of the Company in their **[REDACTED]** decision making process will be included in the **[REDACTED]**.

In light of the above, our Directors are of the view that the grant of the waiver and exemption sought under this application will not prejudice the interests of the **[REDACTED]** public.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

The Stock Exchange [has granted] to our Company a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Part A of Appendix 1 to the Listing Rules on condition that:

(a) on an individual basis, full details of the options granted under the Pre-**[REDACTED]** ESOP to each grantee who is a Director or a senior management member will be disclosed in the section headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" in Appendix IV as required under Rule 17.02(1)(b) of, and paragraph 27 of Part A of Appendix 1 to, the Listing Rules, and paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

(b) in respect of the options granted under the Pre-**[REDACTED]** ESOP to remaining grantees (being the other grantees referred to in the above paragraph (a)), disclosure will be made, on an aggregate basis, of (1) the aggregate number of grantees and number of Class B Shares underlying the options under the Pre-**[REDACTED]** ESOP, (2) the consideration paid for the grant of the options under the Pre-**[REDACTED]** ESOP, (3) the exercise period and the exercise price of the options granted under the Pre-**[REDACTED]** ESOP, (4) the aggregate number of Class B Shares underlying the options granted under the Pre-**[REDACTED]** ESOP as of the Latest Practicable Date and (5) the percentage to the Company's total issued share capital represented by such number of Class B Shares as of the Latest Practicable Date;

(c) the dilutive effect and impact on earnings per Class B Share upon the full exercise of the options under the Pre-**[REDACTED]** ESOP will be disclosed in the section headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" in Appendix IV;

(d) in respect of the options granted under the Pinecone Share Option Scheme I disclosure will be made, on an aggregate basis, of (1) the aggregate number of grantees and number of Pinecone Shares underlying the options under the Pinecone Share Option Scheme I, (2) the consideration paid for the grant of the options under the Pinecone Share Option Scheme I and (3) the exercise period and the exercise price of the options granted under the Pinecone Share Option Scheme I, (4) the aggregate number of Pinecone Shares underlying the options granted under the Pinecone Share Option Scheme I as of the Latest Practicable Date and (5) the percentage to the Pinecone International's total issued share capital represented by such number of Pinecone Shares as of the Latest Practicable Date;

(e) the dilutive effect and impact on earnings per Pinecone Share upon full exercise of the options granted under the Pinecone Share Option Scheme I will be disclosed in this **[REDACTED]**;

(f) a summary of the major terms of the Pre-**[REDACTED]** ESOP and Pinecone Share Option Scheme I will be disclosed in the section headed "Statutory and General Information—Share Option Schemes" in Appendix IV;

(g) the particulars of the waiver will be disclosed in this **[REDACTED]**; and

(h) the grant of certificate of exemption under the Companies (Winding Up and Miscellaneous Provisions) Ordinance from the SFC exempting our Company from the disclosure requirements provided in paragraph 10(d) of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

The SFC has [granted] to our Company the certificate of exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on condition that:

(a) on an individual basis, full details of the options under the Pre-**[REDACTED]** ESOP granted to each of the grantee who is a Director or a member of the senior management will be disclosed in the section headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" in Appendix IV as required by paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

(b) in respect of the options granted by our Company under the Pre-**[REDACTED]** ESOP for the remaining grantees (other than those referred to in paragraph (a) above), disclosure will be made of, on an aggregate basis, (1) the aggregate number of grantees and the number of Class B Shares underlying the options under the Pre-**[REDACTED]** ESOP, (2) the consideration (if any) paid for the grant of the options under the Pre-**[REDACTED]** ESOP and (3) the exercise period and the exercise price for the options granted under the Pre-**[REDACTED]** ESOP;

(c) in respect of the options granted by Pinecone International under the Pinecone Share Option Scheme I, on an aggregate basis, (1) the aggregate number of grantees and the number of Pinecone Shares underlying the options under the Pinecone Share Option Scheme I, (2) the consideration (if any) paid for the grant of the options under the Pinecone Share Option Scheme I and (3) the exercise period and the exercise price for the options granted under the Pinecone Share Option Scheme I; and

(d) the particulars of the exemption will be disclosed in this **[REDACTED]**.

Further details of the Pre-**[REDACTED]** ESOP are set forth in the section headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" in Appendix IV.

WAIVERS IN RELATION TO THE XMF SHARE OPTION SCHEME II

We adopted the XMF Share Option Scheme II on [●] 2018. See the section headed "Statutory and General Information—Share Option Schemes—The XMF Share Option Scheme II" in Appendix IV for further details. The XMF Share Option Scheme II is not in full compliance with the requirements under Chapter 17 of the Listing Rules. Rule 17.02(1)(b) of the Listing Rules provides that, where a share option scheme of a new applicant does not comply with the requirements under Chapter 17 of the Listing Rules, no further options may be granted under the scheme after **[REDACTED]**. We expect to grant options under the XMF Share Option Scheme II after the **[REDACTED]**. Therefore, we have applied for [, and the Stock Exchange has granted], certain waivers from strict compliance with the requirements under the Listing Rules as detailed in this sub-section.

Background and operation of the XMF Share Option Schemes

Xiaomi Finance is in an early stage of development and primarily focuses on start-up businesses in the financial technology industry. In light of the novelty and competiveness of the industry in which Xiaomi Finance operates in, we believe that the "employee-owned and managed" development model would be conducive to the recruitment and retention of highly sought-after talent in the financial technology industry, and in turn the long-term growth of Xiaomi Finance. It is our intention for management/employees of Xiaomi Finance to hold a significant stake in Xiaomi Finance

going forward. To this end, we adopted the XMF Share Option Schemes and intend to grant options to suitable management/employees under the XMF Share Option Scheme II after the **[REDACTED]**. A share option scheme that is fully compliant with the restrictions set out in Chapter 17 of the Listing Rules would not be competitive in such an industry in attracting talent and would only provide marginal benefits to the long-term growth of Xiaomi Finance and may ultimately our ability to put in place the incentives that we desire to ensure the Xiaomi Finance management team is fully committed to growing the business over the long-term.

As of the date of this **[REDACTED]**, Xiaomi Finance had 100,000,000 shares in issue that were all held by our Company.

We currently expect that our executive Director, Founder, Chairman, Chief Executive Officer, and Controlling Shareholder, Lei Jun, will play a strategic role in the development of Xiaomi Finance. Lei Jun has been [granted] options under the XMF Share Option I representing 42,070,000 shares of Xiaomi Finance, which in turn represent (i) approximately 42.07% of the issued shares of Xiaomi Finance as of the Latest Practicable Date; and (ii) approximately 16.8280% of the issued shares of Xiaomi Finance (assuming that the options representing the maximum number of shares of Xiaomi Finance under the XMF Share Option Schemes have been granted and fully exercised). See the section headed "Statutory and General Information—Share Option Schemes—The XMF Share Option Scheme I" in Appendix IV for further details. No further options under the XMF Share Option Scheme I will be granted after the **[REDACTED]**. Lei Jun's participation in the XMF Share Option Scheme II is subject to a limit (see "—Conditions to the waivers [granted] by the Stock Exchange").

The exercise of the options granted / to be granted under the XMF Share Option Schemes over time, which we do not have control over, will effectively dilute our Company's interest in Xiaomi Finance. If we lose equity control in Xiaomi Finance through such dilution, Xiaomi Finance will cease to be a subsidiary of our Company and its results of operations will no longer be consolidated into that of our Group. For further information relating to such dilution, please also see "Risk Factors—Exercise of options granted or to be granted under the XMF Share Option Schemes may significantly dilute our interest in Xiaomi Finance over time to the extent that the results of operations of Xiaomi Finance will no longer be consolidated into those of our Group."

Xiaomi Finance's businesses do not form our Group's core businesses and did not contributed materially to our Group's results during the Track Record Period. Accordingly, the potential financial and dilutive effect of the XMF Share Option Schemes is not currently expected to be significant to our Group as a whole. For the year ended December 31, 2017, the revenue and net profit (before tax) of Xiaomi Finance accounted for approximately 0.7% and 0.2%, respectively, of those of our Group. As of December 31, 2017 the total assets of Xiaomi Finance accounted for approximately 14.1% of those of our Group.

We believe that the implementation of the XMF Share Option Schemes aligns the interests of our Company (and our Shareholders as a whole) and the participants under the XMF Share Option Schemes with respect to the future growth of Xiaomi Finance. In particular, the implementation of the XMF Share Option Schemes with a large scheme limit enables Xiaomi Finance to identify suitable management personnel with an entrepreneurial vision and transition into an "employee-owned and managed" company in the long term.

Relevant provisions of the Listing Rules

Rule 17.02(1)(b) of the Listing Rules provides that where a share option scheme of a new applicant does not comply with the provisions of Chapter 17 of the Listing Rules, no further options may be granted under the scheme after **[REDACTED]**.

Note 1 to Rule 17.03(3) of the Listing Rules provides that the total number of securities that may be issued upon exercise of all options to be granted under the share option scheme and any other schemes must not in aggregate exceed 10% of the relevant class of securities of a subsidiary in issue as at the date of the approval of the share option scheme. Note 1 also provides that the listed issuer may seek approval by its shareholders in general meeting for refreshing the 10% limit under the scheme, provided that the total number of securities that may be issued upon exercise of all options to be granted under all of the schemes of the subsidiary under the refreshed limit must not exceed 10% of the relevant class of securities in issue as at the date of approval of the limit.

Note 2 to Rule 17.03(3) of the Listing Rules provides that the total number of securities that may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes must not exceed 30% of the relevant class of securities of the subsidiary.

Note to Rule 17.03(4) of the Listing Rules provides that unless approved by shareholders in the manner set out in Note 4, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the relevant class of securities of the subsidiary in issue.

Rule 17.04(1) of the Listing Rules provides each grant of any options to a director, chief executive or substantial shareholder of a listed issuer, or any of their respective associates, under a scheme of any of the listed issuer's subsidiaries must be approved by independent non-executive directors of the listed issuer. Where any grant of options to a substantial shareholder or an independent non-executive director of the listed issuer, or any of their respective associates, under a scheme of its subsidiaries, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up and including the date of such grant representing in aggregate over 0.1% of the relevant class of securities in issue, such further grant of options must be approved by shareholders of the listed issuer.

Rules 14.20 and 14A.80 of the Listing Rules provide that, in complying with the size test requirements in categorizing the transactions under Chapter 14 or Chapter 14A of the Listing Rules, any percentage ratio that produces an anomalous result may be disregarded.

Rule 14.29 of the Listing Rules provides that allotment of share capital by a subsidiary of a listed issuer may result in a reduction of the percentage equity interest of the listed issuer in such subsidiary, and such allotments give rise to deemed disposals.

Rule 14A.92(3)(b) of the Listing Rules provides that securities issued to a connected person under a share option scheme that complies with Chapter 17 or a share option scheme adopted by the listed issuer before its securities first start dealing on the Stock Exchange, and where the Stock

Exchange has approved the **[REDACTED]** of the securities to be issued under the scheme is fully exempt from the requirements under Chapter 14A of the Listing Rules.

Waivers

We have applied for[, and the Stock Exchange has granted], subject to the conditions set forth in "—Conditions to the waivers [granted] by the Stock Exchange," the following waivers from strict compliance with:

1. Rule 17.02(1)(b) of the Listing Rules, such that we may grant options under the XMF Share Option Scheme II subject to our compliance with the conditions to the waivers [granted] by the Stock Exchange;
2. Note 1 to Rule 17.03(3) of the Listing Rules, such that the maximum number of shares represented by the options granted and to be granted under the XMF Share Option Schemes and any other schemes is 150,000,000, representing 150% of the total issued shares of Xiaomi Finance as of the Latest Practicable Date (or 60% of the total issued shares of Xiaomi Finance assuming options representing the maximum number of shares of Xiaomi Finance under the XMF Share Option Schemes have been granted and fully exercised), and we may seek approval by our Shareholders in general meeting for refreshing the 150% limit under the XMF Share Option Scheme II, provided that the total number of shares of Xiaomi Finance that may be issued upon exercise of all options to be granted under all of the schemes of Xiaomi Finance including under the refreshed limit must not exceed 60% of the shares in Xiaomi Finance (assuming options representing the maximum number of shares of Xiaomi Finance under the XMF Option Scheme have been granted and fully exercised);
3. Note 2 to Rule 17.03(3) of the Listing Rules, such that the limit on the number of shares of Xiaomi Finance that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme II and any other schemes must not exceed 150% of the total issued shares of Xiaomi Finance (or 60% of the total issued shares of Xiaomi Finance assuming options representing the maximum number of shares of Xiaomi Finance under the XMF Share Option Schemes have been granted and fully exercised);
4. Note 4 to Rule 17.03(4) of the Listing Rules, such that the XMF Share Option Scheme II has no individual participant limit (other than Lei Jun, see "—Conditions to the waivers [granted] by the Stock Exchange" below); and
5. Rule 17.04(1) of the Listing Rules, such that we do not have to comply with the relevant requirements with respect to the grants of options under the XMF Share Option Scheme II to a Director, chief executive or substantial shareholder of our Company, or any of their respective associates.

The above waivers apply only in relation to the XMF Share Option Schemes involving the shares of Xiaomi Finance and have no general application to the share option schemes of other members of our Group.

We have also applied for[, and the Stock Exchange has granted], certain dispensations of the Listing Rules, such that (i) pursuant to Rules 14.20 and 14A.80 of the Listing Rules, the assets ratio test be disregarded when calculating the relevant ratio tests under Chapter 14 or Chapter 14A of the

Listing Rules in relation to the grant of options under the XMF Share Option Scheme II, as the assets ratio test would produce an anomalous result; (ii) Rule 14.29 of the Listing Rules shall not apply to issuances of shares by Xiaomi Finance pursuant to the exercise of options granted under the XMF Share Option Schemes; and (iii) Rule 14A.92(3)(b) of the Listing Rules be applied to the issuance of shares pursuant to the exercise of options granted under the XMF Share Option Schemes. See also "—Conditions to the waivers [granted] by the Stock Exchange—Chapter 14/14A of the Listing Rules."

Rationale for the waivers

The reasons we have submitted to the Stock Exchange include:

1. the implementation of the XMF Share Option Scheme II on the basis of the waivers sought aligns the interests of our Company (and our Shareholders as a whole) and the participants under the XMF Share Option Scheme II with respect to the future growth of Xiaomi Finance. The implementation of the XMF Share Option Scheme II with a large scheme limit enables Xiaomi Finance to identify suitable management personnel with an entrepreneurial vision and transition into an "employee-owned and managed" company in the long term. We believe that the practice of participatory management is paramount to the future growth and success of Xiaomi Finance, particular given the novelty of the financial technology industry that it operates in. In this connection, the individual limit to each participant under a share option scheme as prescribed in Note 4 to Rule 17.03(4) of the Listing Rules and Rule 17.04(1) of the Listing Rules may limit the upside of the participant in benefiting from the long term success of Xiaomi Finance and in turn the ability of our Company to attract and incentivize key employee-owners of Xiaomi Finance to develop its business with an entrepreneurial approach;
2. it would be unduly burdensome for our Company to convene multiple shareholders' meetings to approve and refresh the limits under the XMF Share Option Scheme II if it were to fully comply with Notes 1 and 2 to Rule 17.03(3) of the Listing Rules or to approve grants of options to participants exceeding the limits prescribed in Note 4 to Rule 17.03(4) of the Listing Rules and/or Rule 17.04(1) of the Listing Rules, and may ultimately impact our Company's ability to put in place the incentives it desires to ensure that the Xiaomi Finance management team is fully committed to growing the business over the long-term; and
3. Xiaomi Finance's business is not one of our Group's core businesses and did not contribute materially to our Group's results during the Track Record Period. Accordingly, the potential financial and dilutive effect of the XMF Share Option Scheme II, even if implemented on the basis of the waivers sought, is not expected to be significant to our Group as a whole.

Conditions to the waivers [granted] by the Stock Exchange

The waivers [granted] by the Stock Exchange are subject to the following conditions that serve as safeguards to the interests of our Company (and therefore, our Shareholders) in Xiaomi Finance in light of the features of the XMF Share Option Scheme II that deviate from Chapter 17 of the Listing Rules:

1. **Non-competition undertaking.** Xiaomi Finance [has entered] into a non-competition undertaking in favor of us, pursuant to which Xiaomi Finance will not engage in

businesses which will or are likely to compete with the business conducted by us from time to time (other than Xiaomi Finance).

2. **Connected subsidiary.** For as long as we account for Xiaomi Finance as a subsidiary, we will treat each member of the Xiaomi Finance Group as a "connected subsidiary" (as defined in Rule 14A.16 of the Listing Rules) after the **[REDACTED]** and will comply with the relevant connected transactions requirements under Chapter 14A of the Listing Rules with respect to transactions that occur between the XM Group and the Xiaomi Finance Group, save for the interest-free and one-off XMF Restructuring Loans advanced by our Company to Xiaomi Finance that arose in connection with the XMF Restructuring and were made on the basis that Xiaomi Finance was at the time, and as of the Latest Practicable Date remains, a wholly-owned subsidiary of our Company. For details of these transactions, see "Connected Transactions."

3. **Pre-emptive rights.** Xiaomi Finance [has granted] us pre-emptive rights in relation to any issuance of new shares by Xiaomi Finance (other than issuances to the exercise of options under the XMF Share Option Schemes).

4. **Remuneration committee review.** In the case where any of our Directors or senior management members as identified in this **[REDACTED]** will be granted any options under the XMF Share Option Scheme II, this would form part of the overall compensation package of such Directors / senior management members with us, and thus subject to the scrutiny and approval of our remuneration committee (which is chaired by an independent non-executive Director and comprises a majority of the independent non-executive Directors as required under the Listing Rules).

5. **Individual limit on Lei Jun.** The XMF Share Option Scheme II contains an express provision that the grant of options to Lei Jun will be subject to an overall limit such that no options may be granted to Lei Jun if the grant would result in Lei Jun's interest in Xiaomi Finance exceeding 28.0467% (being the effective interest of Lei Jun in the fully diluted share capital of our Company as of the Latest Practicable Date). Such assessment would be made on a "fully diluted" basis, assuming exercise in full of any options in respect of shares in Xiaomi Finance held by both Lei Jun and any other grantees under the XMF Share Option Schemes.

6. **Chapter 14 / 14A of the Listing Rules**. For as long as we account for Xiaomi Finance as a subsidiary, we will treat any grant of options under the XMF Share Option Scheme II as a deemed disposal of our interest in Xiaomi Finance and will comply with (i) the requirements under Chapter 14A of the Listing Rules with respect to grants of options under the XMF Share Option Scheme II to our connected persons; and (ii) the requirements under Chapter 14 of the Listing Rules with respect to grants of options under the XMF Share Option Scheme II as a whole, in each case on the following basis:

   (a) **Size test ratios.** The grant of options under the XMF Share Option Scheme II would be aggregated within any 12-month period pursuant to Rule 14.22 and/or Rule 14A.81 of the Listing Rules (as the case may be) on the basis set out below, and measured against the applicable size tests pursuant to Rule 14.07 of the Listing Rules.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

The following tables summarize the operations of Chapters 14 and 14A of the Listing Rules with respect to the grant of options under the XMF Share Option Scheme II:

(i) announcement / shareholders' approval requirements with respect to grant of options

	Announcement requirement	Shareholders' approval requirement
Compliance with Chapter 14A of the Listing Rules	Grants to any individual grantee who is a connected person are aggregated within any 12-month period. If any of following ratios is ≥ **0.1%** (or 1% if the grantee is connected at the Xiaomi Finance level only): ● Consideration Ratio; and ● Revenue Ratio, announcement is required under Chapter 14A of the Listing Rules.	Grants to any individual grantee who is a connected person are aggregated within any 12-month period. If any of following ratios is ≥ **5%**: ● Consideration Ratio; and ● Revenue Ratio, independent shareholders' approval is required under Chapter 14A of the Listing Rules.
Compliance with Chapter 14 of the Listing Rules	Total of all grants made is aggregated within any 12-month period. If any of following ratios is ≥ **5%**: ● Consideration Ratio; ● Profits Ratio; and ● Revenue Ratio, announcement is required under Chapter 14 of the Listing Rules.	Total of all grants made is aggregated within any 12-month period. If any of following ratios is ≥ **25%**: ● Consideration Ratio; ● Profits Ratio; and ● Revenue Ratio, shareholders' approval is required under Chapter 14 of the Listing Rules.

(ii) the applicability and calculation of the relevant size tests under Rule 14.07 of the Listing Rules for the above purposes

Size Test	Calculation	Notes
Assets Ratio	The assets ratio under Rule 14.07(1) of the Listing Rules is not applicable as it would lead to an anomalous result pursuant to Rule 14.2 and/or Rule 14A.80 of the Listing Rules (as the case maybe).	The asset profiles of our Company's business and that of Xiaomi Finance are not comparable. With an "asset light" new economy company model, the majority of the assets of our Company lies in intellectual property, branding and the talents of its management and employees, rather than the extensive property, plant and equipment asset profile of traditional "asset heavy" old economy businesses. On the other hand, the financial services businesses of Xiaomi Finance have extensive capital requirements (including regulatory capital requirements where applicable) resulting in a significant balance sheet of financial assets (comprising, for example, the capital required to carry out the financial services businesses, customer loan receivables of the lending business, and investments / insurance assets of the insurance business).

Size Test	Calculation	Notes
Consideration Ratio	For Chapter 14A: the total price paid for, and the total exercise price of, the options granted to the individual grantee who is a connected person in the last 12 months ÷ total market capitalization of our Company For Chapter 14: the total price paid for, and the total exercise price of, any options granted in the last 12 months ÷ total market capitalization of our Company	Pursuant to Rule 14.15 of the Listing Rules, if the most recently appraised fair value of Xiaomi Finance becomes significantly higher than the one that was used to determine the exercise price of the option to be granted, the numerators will be modified to the higher fair value of Xiaomi Finance attributable to the equity interest represented by options granted to the individual grantee who is a connected person in the last 12 months (for Chapter 14A) or all the options granted in the last 12 months (for Chapter 14) and the total price paid for such options.
Profits Ratio	For Chapter 14: total percentage equity interest in Xiaomi Finance represented by the total options granted in the last 12 months x net profits of Xiaomi Finance ÷ the net profits of our Company	In the event of a grant of options under the XMF Share Option Scheme II that would result in Xiaomi Finance ceasing to be our subsidiary on a fully-diluted basis (assuming such option and all other outstanding options granted under the XMF Share Option Schemes have been fully exercised), for the purpose of the size tests, the numerators for the Profits Ratio and the Revenue Ratios would become 100% of the total net profits of Xiaomi Finance and 100% of the total revenue of Xiaomi Finance, respectively.
Revenue Ratio	For Chapter 14A: total percentage equity interest in Xiaomi Finance represented by grants to the individual grantee who is a connected person in the last 12 months x revenue of Xiaomi Finance ÷ the revenue of our Company For Chapter 14: total percentage equity interest in Xiaomi Finance represented by the total options granted in the last 12 months x revenue of Xiaomi Finance ÷ the revenue of our Company	
Equity Capital Ratio	The equity capital ratio under Rule 14.07(5) of the Listing Rules is not applicable.	No issue of consideration shares will be involved in the operation of the XMF Share Option Schemes.

(b) **WVR structure to apply**. Consistent with Rule 8A.25 of the Listing Rules, our WVR structure as set forth in "Share Capital—Weighted Voting Rights Structure" shall apply to the relevant requirements to obtain shareholders' approval under Chapters 14 and/or 14A of the Listing Rules, provided that any Shareholder with a material interest (i.e. proposed grantees of the options that are subject to the relevant approval) will abstain from voting pursuant to Rule 14.46 and/or Rule 14A.36 of the Listing Rules (as the case may be).

(c) **Compliance requirements for the issue of shares of Xiaomi Finance pursuant to the exercise of options under the XMF Share Option Schemes**. The issue of shares of Xiaomi Finance pursuant to the exercise of options granted under the XMF Share Option Schemes shall not be treated as a "deemed disposal" of our interest in Xiaomi Finance under Rule 14.29 of the Listing Rules, as (i) with respect to the option already granted under the XMF Share Option Scheme I, all relevant information is

already disclosed to the **[REDACTED]** in the **[REDACTED]**; and (ii) with respect to the options to be granted under the XMF Share Option Scheme II after the **[REDACTED]**, we would have complied with the relevant requirements at the time of grant of the relevant options (see paragraph (a) above). Rule 14A.92(3)(b) of the Listing Rules shall apply to the XMF Share Option Schemes to the extent that the issue of shares of Xiaomi Finance to a connected person pursuant to the exercise of options under the XMF Share Option Schemes by such connected person shall be exempt from any annual review and shareholders' approval requirements under Chapter 14A of the Listing Rules, provided that we will comply with the disclosure requirements under Rule 14A.61 of the Listing Rules such that we will make an announcement pursuant to Rule 2.07C of the Listing Rules in the event that any connected person exercises options granted under the XMF Share Option Schemes, notifies us that they will not exercise any options, or the options expire.

WAIVER IN RELATION TO THE PINECONE SHARE OPTION SCHEME II

We adopted the Pinecone Share Option Scheme II on [●], 2018. See the section headed "Statutory and General Information—Share Option Schemes—Pinecone Share Option Scheme II" in Appendix IV for further details.

Note 1 to Rule 17.03(3) of the Listing Rules provides that the total number of securities that may be issued upon exercise of all options to be granted under the share option scheme and any other schemes must be in aggregate exceed 10% of the *relevant class of securities* of a subsidiary in issue as at the date of the approval of the share option scheme. Note 1 also provides that the listed issuer may seek approval by its shareholders in general meeting for refreshing the 10% limit under the scheme, provided that the total number of securities that may be issued upon exercise of all options to be granted under all of the schemes of the subsidiary under the refreshed limit must not exceed 10% of the *relevant class of securities* in issue as at the date of approval of the limit.

Note 2 to Rule 17.03(3) of the Listing Rules provides that the total number of securities that may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes must not exceed 30% of the *relevant class of securities* of the subsidiary.

Note to Rule 17.03(4) of the Listing Rules provides that unless approved by shareholders in the manner set out in Note 4, the total number of securities issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the *relevant class of securities* of the subsidiary in issue.

Rule 17.04(1) of the Listing Rules provides where any grant of options to a substantial shareholder or an independent non-executive director of the listed issuer, or any of their respective associates, under a scheme of any of its subsidiaries, would result in the securities issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up and including the date of such grant representing in aggregate over 0.1% of the *relevant class of securities* in issue, such further grant of options must be approved by shareholders of the listed issuer.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

As of the Latest Practicable Date, the share capital of Pinecone International comprised (i) ordinary shares (the "**Pinecone Ordinary Shares**"); and (ii) series A preferred shares (the "**Pinecone Series A Preferred Shares**"). As of the Latest Practicable Date, 25,000,000 Pinecone Ordinary Shares and 63,000,000 Pinecone Series A Preferred Shares (which were held by us) were in issue. Special rights attached to the Pinecone Series A Preferred Shares (the "**Special Rights**") include dividends rights, liquidation rights, conversion rights, anti-dilution protection, other protective provisions requiring certain matters to be approved by holders of Pinecone Series A Preferred Shares and redemption rights. All Pinecone Series A Preferred Shares may be converted into Pinecone Ordinary Shares on a one to one basis, subject to certain adjustment events set forth in the articles of association of Pinecone International. The Pinecone Ordinary Shares and the Pinecone Series A Preferred Shares shall vote together on an "as converted" basis on all matters submitted to a vote of shareholders of Pinecone International.

We have applied for, [and the Stock Exchange has granted] a waiver for strict compliance from (i) Note 1 to Rule 17.03(3) of the Listing Rules; (ii) Note 2 to Rule 17.03(3) of the Listing Rules; (iii) Rule 17.04(1) of the Listing Rules; and (iv) Rule 17.04(1) of the Listing Rules, such that all of the respective limits therein would, for the purposes of the Pinecone Share Option Scheme II, be calculated with respect to the total number of Pinecone Ordinary Shares in issue on an "as-converted" basis assuming conversion of all preferred shares of Pinecone International (including the Pinecone Series A Preferred Shares) into Pinecone Ordinary Shares. The reasons we have submitted to the Stock Exchange include:

(a) as Pinecone International is a early stage company, it is desirable to adopt the Pinecone Share Option Scheme II to attract and incentivise suitable employees to work towards enhancing the value of Pinecone International. Options representing the Pinecone Series A Preferred Shares with Special Rights attached would not be appropriate to be granted to the employees as they are not subject to the same investment risk and capital commitment as investor for the Pinecone Series A Preferred Shares (i.e. our Company) and would be prejudicial to the interests of our Company as holder of the Pinecone Series A Preferred Shares. The options representing Pinecone Ordinary Shares are more appropriate for the purpose of the Pinecone Share Option Scheme II. However, if the Pinecone Share Option Scheme II were to fully comply with Note 1 to Rule 17.03(3) of the Listing Rules, the 10% scheme mandate limit of 2,500,000 Pinecone Ordinary Shares, representing only approximately 2.84% of the issued share capital of Pinecone International (on an as-converted basis), would be too restrictive for the purpose of the Pinecone Share Option Scheme II;

(b) it would be unduly burdensome for the Company to convene multiple general meetings to refresh the scheme mandate limit with respect to the Pinecone Ordinary Shares that would represent only a small percentage of the overall issued share capital of Pinecone International (on an as-converted basis), and may ultimately impact Pinecone International's ability to put in place the incentives it desires to attract and incentivise suitable employees;

(c) given that only options representing Pinecone Ordinary Shares will be granted under the Pinecone Share Option Scheme II, the operation of the scheme would not result in

effective dilution to the Company's interest in Pinecone International to an extent greater than the limitation envisaged in Note 1 to Rule 17.03(3) of the Listing Rules; and

(d) waiver with respect to the refreshment of the 10% scheme mandate limit under Note 1 to Rule 17.03(3) of the Listing Rules, the 30% overall scheme limit under Note 2 to Rule 17.03(3), the 1% individual participant limit under Note to Rule 17.03(4) of the Listing Rules and the 0.1% limit for grants to a substantial shareholder or an independent non-executive Director, or any of their respective associates, under Rule 17.04(1) of the Listing Rules is consequential to the scheme mandate limit of 10% being calculated with respect to the total number of Pinecone Ordinary Shares in issue on an as-converted basis assuming conversion of all preferred shares of Pinecone International (including the Pinecone Series A Preferred Shares) into Pinecone Ordinary Shares.

[The Stock Exchange has granted the requested waiver on the condition that only options representing the Pinecone Ordinary Shares may be granted under the Pinecone Share Option Scheme II.]

WAIVER IN RELATION TO BUSINESS OR SUBSIDIARY ACQUIRED OR PROPOSED TO BE ACQUIRED AFTER THE TRACK RECORD PERIOD

Pursuant to Rules 4.04(2) and 4.04(4)(a) of the Listing Rules, the accountant's report to be included in a **[REDACTED]** document must include the income statements and balance sheets of any subsidiary or business acquired, agreed to be acquired or proposed to be acquired since the date to which its latest audited accounts have been made up in respect of each of the three financial years immediately preceding the issue of the **[REDACTED]** document (the "**Target Historical Financial Information**").

In addition, our Group may also increase its equity interest in entities that are already majority controlled by, and consolidated in the financial statements of, our Group. However, as these do not involve the acquisition of a company or a business, and the financial contribution of the relevant entities are already reflected in our Group's financial statements, our Company does not believe that these increases in its equity interests represent an acquisition for the purpose of Rules 4.04(2) and 4.04(4).

Pursuant to guidance letter HKEX-GL32-12 issued by the Stock Exchange ("**GL32-12**"), acquisitions of business include acquisitions of associates and any equity interest in another company. Pursuant to GL32-12, the Stock Exchange may consider granting a waiver of the requirements under Rules 4.04(2) and 4.04(4) of the Listing Rules on a case-by-case basis, and having regard to all relevant facts and circumstances including (i) the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) of each acquisition are all less than 5% by reference to the most recent financial year of the applicant's trading record period, (ii) the applicant is neither able to exercise any control, nor has any significant influence, over the underlying company or business; and (iii) the **[REDACTED]** document should include the reasons for the acquisitions and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the applicant and its connected persons.

Background to the investments

During the Track Record Period, our Group has made investments in a large number of companies both in mainland China and overseas (the "**Investments**"). These investee companies are generally members of the broader "ecosystem" related to our Group's core business, and provide products, services and/or resources that our Group believes can help them efficiently expand product and service offerings to our Group's users, or have developed proprietary technologies complementary to our Group, or have the ability to help our Group enter a new market to expand our international footprint. Our Group plans to continue to invest in businesses that are part of our Group's ecosystem and complementary to its business and growth strategies.

The majority of the Investments made by our Group have been passive investments (usually no more than 30% equity interest in the target companies), such that the target companies of the Investments have not been consolidated into our Group, and our Group has no control over the board of the target companies.

During the Track Record Period, our Group invested in a range of emerging technology trends and breakthroughs that it believes offer significant opportunities to deliver value to its users and growth for our Group.

Save for five investments whose investment amount are above US$100 million each, the investment amount of the majority of the Investments are less than RMB20 million.

Since December 31, 2017 (being the date to which its latest audited accounts have been made up) and up to the Latest Practicable Date, our Group had made or proposed to make a number of investments, details of which are set out in below:

No.	Name of the target company	Investment amount ('000)	Percentage of shareholding / equity interest	Principal business	Basis for determining the investment amount
1.	Company A	RMB40,000	29.6%	Game	Based on the capital required for the target's operation
2.	Company B	RMB400	10%	Virtual reality	Based on the capital required for the target's operation
3.	Company C	RMB3,000	10%	Coffee machines	Based on the capital required for the target's operation
4.	Company D	US$12,000	4.9%	Distribution and retail of hardware	Based on the capital required for the target's operation to support its distribution and retail of our Group's products
5.	Company E	RMB6,250	5%	Consumer goods (health products)	Based on the valuation of the assets as at April 30, 2017

No.	Name of the target company	Investment amount ('000)	Percentage of shareholding / equity interest	Principal business	Basis for determining the investment amount
6.	Company F	RMB20,000	10%	Pronunciation research	Based on the capital required for the target's operation
7.	Company G	RMB3,250	2.5%	Maternal and child supplies	Based on the capital required for the target's operation
8.	Company H	RMB42,140	3.6%	Flexible printed circuit manufacturing	P/E ratio
9.	Company I	US$11,780	20.8%	News aggregation	Strategic investment
10.	Shenzhen Blackheart Black Technology Co., Ltd. (深圳黑桃黑科技有限公司)	RMB1,250	12.5%	Industrial design studio	Based on the capital required for the target's operation
11.	Youmi Co., Ltd.	US$ 340	5%	Korean sales channels	Based on the capital required for the target's operation
12.	Nanjing Bianyu Liandong Technology Co., Ltd. (南京遍宇聯動科技有限公司)	RMB3,000	10%	Provide IoT solution to enterprise	Based on the capital required for the target's operation
13.	Hangzhou Nianyu E-commerce Co., Ltd. (杭州鮎魚電子商務有限公司)	RMB750	1.5%	IP derivatives service platform	Based on the capital required for the target's operation
14.	Xiaoji Bio-tech (Shanghai) Co., Ltd. (小吉生物科技(上海)有限公司)	RMB10,000	10%	Intelligent hardware	Based on the capital required for the target's operation
15.	Shenzhen Qimian Garment Co., Ltd. (深圳七面服飾有限公司)	RMB1,500	10%	Leather product	Based on the capital required for the target's operation
16.	Shenzhen More Acoustics Technology Co., Ltd. (深圳魔耳智能聲學科技有限公司)	RMB2,300	11.5%	Speaker box	Based on the capital required for the target's operation
17.	Xiamen Lefan Health Technology Co., Ltd. (厦門樂范健康科技有限公司)	RMB4,000	10%	Consumer goods (health related and massage related products)	Based on the valuation of the assets as at December 31, 2017
18.	Shanghai Kaco Industrial Co., Ltd (上海文采實業有限公司)	RMB6,000	8%	Consumer goods (stationery)	Based on the valuation of the assets as at December 31, 2017
19.	Finnov Private Limited	US$280	1%	Fintech	Strategic investment

No.	Name of the target company	Investment amount ('000)	Percentage of shareholding / equity interest	Principal business	Basis for determining the investment amount
20.	ShenZhen Yunyinggu Technology Co, Ltd. (深圳雲英穀科技有限公司)	RMB2,500	0.42%	Display technology	Based on the capital required for the target's operation

Each of the above investments will be settled in cash. To the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, all of the target companies set out above and their ultimate beneficial owners are third parties independent from our Company and its connected persons. In its ordinary course of business, our Company expects to continue to enter into further investments subsequent to the Latest Practicable Date and prior to the date of this **[REDACTED]** (together with the investments listed above, the "**2018 Investments**"). The final terms of the 2018 Investments that have yet to be completed may be subject to change.

The reasons for the acquisitions for the 2018 Investments are to further expand members of the broader "ecosystem" related to the Group's core business such that the Group could create strategic synergy and provide products, services and/or resources that the Group believes can help them efficiently expand product and service offerings to the Group's users, or have developed proprietary technologies complementary to the Group, or have the ability to help the Group enter a new market to expand our international footprint.

Conditions to the waivers [granted] by the Stock Exchange

We have applied to the Stock Exchange for[, and the Stock Exchange has agreed to grant,] a waiver from strict compliance with Rule 4.04(2) and 4.04(4) of the Listing Rules in respect of the 2018 Investments on the following grounds:

1. Ordinary and usual course of business

Making equity investments of this nature is part of the ordinary course of business of our Group. Our Company started making investments in 2011, and conducted over 200 Investments to date and over 100 during the Track Record Period. Our Company has an investment team comprising of about 12 members responsible for conducting the Investments on a full-time basis.

The Investments are investments classified as financial assets carried at fair value through profit or loss and are not consolidated into our Group's financial statements. Changes in the fair value are included in profit or loss in the period in which they arise and presented within "Fair value changes on investments" in the income statement. Upon disposal, the difference between the net sale proceeds and the carrying amount is also included in the income statement as "Other (losses)/gains, net."

2. The percentage ratios of each investment are all less than 5% by reference to the most recent financial year of our Company's Track Record Period

The percentage ratios for each of the 2018 Investments are all significantly less than 5% by reference to the most recent financial year of our Company's Track Record Period, and any subsequent investments are also expected to be so. To the best knowledge of our Company, the 2018 Investments are not subject to aggregation under Rule 14.22 of the Listing Rules.

Accordingly, we consider that the 2018 Investments are immaterial and do not expect them to have any material effect on the business, financial condition or operations of our Group.

3. The Company is neither able to exercise any control, nor has any significant influence, over the underlying company or business

We only hold a minority equity interest in each of the target companies under the 2018 Investments and does not control their boards of directors; and this is expected to remain the case for any subsequent investments. Given that our Group is neither able to exercise any control nor has any significant influence over each of the target companies under the 2018 Investments, we would not be able to compel or request the target companies of the 2018 Investments to cooperate with its audit work in order for us to comply with the relevant requirements under Rules 4.04(2) and 4.04(4)(a) of the Listing Rules.

4. Alternative disclosure in the [REDACTED]

We have provided in this section alternative information in connection with the 2018 Investments. Such information include, where applicable, those which would be required for a discloseable transaction under Chapter 14 of the Listing Rules including, for example, reasons for the investments and a confirmation that the counterparties and the ultimate beneficial owners of the counterparties are independent third parties of the Company and its connected persons. For the avoidance of doubt, the names of certain companies that are the subject of the 2018 Investments are not disclosed in the **[REDACTED]** because (i) we have entered into confidentiality agreements with these companies and do not have consent from all of them for such disclosure and/or (ii) given that we have not yet entered into legally binding agreements with respect to all of these investments as of the Latest Practicable Date, disclosure of the names of the relevant companies in the **[REDACTED]** is commercially sensitive and may jeopardize our ability to consummate the proposed investments and/or (iii) given the competitive nature of the industry in which we operate, it is commercially sensitive to disclose the identities of the companies we invested or propose to invest in to avoid our competitors to anticipate our plans of business growth.

The Company does not expect to use any **[REDACTED]** from the Proposed **[REDACTED]** to fund such Investments.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

WAIVER IN RELATION TO THE DISCLOSURE REQUIREMENTS WITH RESPECT TO CHANGES IN SHARE CAPITAL

We have applied for[, and the Stock Exchange has granted,] a waiver from strict compliance with the requirements of paragraph 26 of Part A of Appendix 1 to the Listing Rules in respect of disclosing the particulars of any alterations in the capital of any member of the group within the two years immediately preceding the issue of this **[REDACTED]**.

We have identified seven entities that we consider are the major subsidiaries and Consolidated Affiliated Entities primarily responsible for the track record results of our Group (the "**Principal Entities**," and each a "**Principal Entity**"). For further details, please see section headed "History, Reorganization and Corporate Structure—Major subsidiaries, Consolidated Affiliated Entities and operating entities." Globally, our Group has approximately 100 subsidiaries and Consolidated Affiliated Entities, across more than 10 different jurisdictions. It would be unduly burdensome for our Company to disclose this information, which would not be material or meaningful to investors. By way of illustration, for the financial year ended December 31, 2017, the aggregate revenue of the Principal Entities in respect of which the relevant information is disclosed represents approximately 92.9% of the Group's total revenue. Accordingly, the remaining subsidiaries and Consolidated Affiliated Entities in our Group are insignificant to the overall results of the Group.

As such, the particulars of the changes in the share capital of our Company and the Principal Entities are disclosed in the section headed "Statutory and General Information—Further information about our Company and our subsidiaries and Consolidated Affiliated Entities—Changes in the share capital of our major subsidiaries and Consolidated Affiliated Entities" in Appendix IV. Further, all major shareholding changes and reorganization steps taken by our Group have been included in the section headed "History, Reorganization and Corporate Structure."

[REDACTED]

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES AND EXEMPTIONS FROM THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

[REDACTED]

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS [REDACTED]

This **[REDACTED]**, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this **[REDACTED]** is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this **[REDACTED]** misleading.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

EXCHANGE RATE CONVERSION

Solely for convenience purposes, this **[REDACTED]** includes translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the Renminbi amounts could actually be converted into another currency at the rates indicated, or at all. Unless otherwise indicated, (i) the translation between Renminbi and Hong Kong dollars was made at the rate of RMB0.8079 to HK$1.00, the exchange rate prevailing on April 27, 2018 published by the PBOC for foreign exchange transactions and (ii) the translations between U.S. dollars, Renminbi and Hong Kong dollars were made at the rate of RMB6.3325, and HK$7.8483 to US$1.00, being the noon buying rate as set forth in the H.10 statistical release of the United States Federal Reserve Board on April 27, 2018.

LANGUAGE

If there is any inconsistency between the English version of this **[REDACTED]** and the Chinese translation of this **[REDACTED]**, the English version of this **[REDACTED]** shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English **[REDACTED]** which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

Any discrepancies in any table in this **[REDACTED]** between total and sum of amounts listed therein are due to rounding.

For further information on our Directors, please refer to the section headed "Directors and Senior Management."

DIRECTORS

Name	Address	Nationality
Executive Directors		
LEI, Jun (雷軍)	A-19E Huatingjiayuan 6 Beisihuan Middle Road Chaoyang District Beijing China	Chinese
LIN, Bin (林斌)	No. 1052 Wenjin North Road Luohu District Shenzhen, Guangdong China	American
Non-executive Directors		
KOH, Tuck Lye (許達來)	32D, Watten Rise Singapore 286651	Singaporean
LIU, Qin (劉芹)	Room 8 823 Huashan Road Xuhui District Shanghai China	Chinese
Independent non-executive Directors		
CHEN, Dongsheng (陳東升)	Building No. 3, Courtyard No. 1 Naoshikou Street Xicheng District Beijing China	Chinese
LEE, Ka Kit (李家傑)	36 MacDonnell Road, 22/F Hong Kong	Chinese (Hong Kong)
WONG, Shun Tak (王舜德)	Flat 801, Tower 2, Building 3 Shouchun Court Lvcheng Xixichengyuan Xihu District Hangzhou, Zhejiang China	Chinese (Hong Kong)

PARTIES INVOLVED IN THE [REDACTED]

Joint Sponsors	CLSA Capital Markets Limited 18/F, One Pacific Place 88 Queensway Hong Kong Goldman Sachs (Asia) L.L.C. 68th Floor, Cheung Kong Center 2 Queen's Road Central Hong Kong Morgan Stanley Asia Limited 46/F, International Commerce Center 1 Austin Road West Kowloon Hong Kong
	[REDACTED]
Auditor and Reporting Accountant	PricewaterhouseCoopers Certified Public Accountants 22/F, Prince's Building Central, Hong Kong

Legal Advisors to the Company	*As to Hong Kong and U.S. laws:* Skadden, Arps, Slate, Meagher & Flom 42/F, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong *As to the laws of mainland China:* JunHe LLP 20/F China Resources Building 8 Jianguomenbei Avenue Beijing China *As to Cayman Islands law:* Maples and Calder (Hong Kong) LLP 53rd Floor, The Center 99 Queen's Road Central Hong Kong
Legal Advisors to the Joint Sponsors and the [REDACTED]	*As to Hong Kong and U.S. laws:* Clifford Chance 27th Floor, Jardine House One Connaught Place Hong Kong *As to the laws of mainland China:* Jingtian & Gongcheng 34/F, Tower 3, China Central Place 77 Jianguo Road Beijing China
Industry Consultants	Shanghai iResearch Co., Ltd, China 3/F, Tower B, Guanghualu SOHO II No. 9 Guanghua Road, Chaoyang District Beijing China IDC Consulting (Beijing) Ltd. Room 1206, Tower D, Global Trade Center No. 36 North 3rd Ring Road Beijing China

[REDACTED]

CORPORATE INFORMATION

Registered Office	Osiris International Cayman Limited Suite #4-210, Governors Square 23 Lime Tree Bay Avenue PO Box 32311 Grand Cayman, KY1-1209 Cayman Islands
Head Office and Principal Place Of Business in Mainland China	Rainbow City Office Building 68 Qinghe Middle Street Haidian District Beijing China
Principal Place of Business in Hong Kong	Level 54, Hopewell Center 183 Queen's Road East Hong Kong
Company's Website	www.mi.com (A copy of this **[REDACTED]** is available on the Company's website. Except for the information contained in this **[REDACTED]**, none of the other information contained on the Company's website forms part of this **[REDACTED]**)
Joint Company Secretaries	LIN, Steve (林冠男) Rainbow City Office Building 68 Qinghe Middle Street Haidian District Beijing China SO, Ka Man (蘇嘉敏) *(HKICS, ICSA)* Level 54, Hopewell Center 183 Queen's Road East Hong Kong
Authorized Representatives	LIN, Bin (林斌) No. 1052 Wenjin North Road Luohu District Shenzhen, Guangdong China SO, Ka Man (蘇嘉敏) Level 54, Hopewell Center 183 Queen's Road East Hong Kong
Audit Committee	CHEN, Dongsheng (陳東升) KOH, Tuck Lye (許達來) WONG, Shun Tak (王舜德) *(Committee Chairman)*

Remuneration Committee	CHEN, Dongsheng (陳東升) *(Committee Chairman)* LEI, Jun (雷軍) WONG, Shun Tak (王舜德)
Nomination Committee	LEE, Ka Kit (李家傑) *(Committee Chairman)* LIN, Bin (林斌) WONG, Shun Tak (王舜德)
Corporate Governance Committee	CHEN, Dongsheng (陳東升) LEE, Ka Kit (李家傑) WONG, Shun Tak (王舜德) *(Committee Chairman)*
Compliance Advisor	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
	[REDACTED]
Principal Share Registrar and Transfer Office	Maples Fund Services (Cayman) Limited PO Box 1093, Boundary Hall Cricket Square Grand Cayman KY1-1102 Cayman Islands
Principal Banker	China Merchants Bank, Beijing Branch, Shouti Sub-branch 1/F, Tengda Building No. 168, Xizhimenwai Street Haidian District Beijing China

Certain information and statistics set out in this section and elsewhere in this **[REDACTED]** *are derived from various government and other publicly available sources, from the market research report prepared by iResearch and from market data published by IDC. iResearch and IDC are both independent industry consultants engaged by our Company, and the Company commissioned iResearch to prepare a market research report (the "****iResearch Report****") and purchased market data prepared and published by IDC (the "****IDC Report****"). The information extracted from the iResearch Report and the IDC Report should not be considered to be a basis for* **[REDACTED]** *in the* **[REDACTED]** *or an opinion of either iResearch or IDC with respect to the value of any securities or the advisability of* **[REDACTED]** *in our Company. We believe that the sources of such information and statistics are appropriate for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. No independent verification has been carried out on such information and statistics by our Company or any other parties involved in the* **[REDACTED]** *(excluding iResearch and IDC), or their respective directors, officers, employees, advisors, or agents, and no representation is given as to the accuracy or completeness of such information and statistics. Accordingly, you should not place undue reliance on such information and statistics. For discussions of risks relating to our industry, please see the section headed "Risk Factors—Risks Relating to Our Business and Industry."*

SOURCE OF INFORMATION

We commissioned iResearch to conduct market research concerning the global smartphone, consumer internet of things, internet services and new retail markets. We purchased published market data concerning the global smartphone markets prepared by IDC for inclusion in this **[REDACTED]**. We believe that iResearch and IDC each have specialized research capabilities and experience in these industries in both international and Chinese markets. Both iResearch and IDC use different assumptions and estimates, and limitations on certain data available to them may impact the comparability of certain industry data.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the iResearch Report or the IDC Report. We have also referred to certain information in the "Summary," "Risk Factors," "Business" and "Financial Information" sections to provide a more comprehensive presentation of the industry in which we operate.

The iResearch Report

iResearch is an independent market intelligence provider that provides market research, information and advice to companies in various industries, including the internet and information technology industry. We have agreed to pay a commission fee of approximately RMB650,000 for the iResearch Report, dated as of May 1, 2018. The iResearch Report was compiled using both primary and secondary research conducted in mainland China and globally. The primary research involved expert interviews and an online survey. The online survey was completed by a statistically significant random sample of individuals living in mainland China. The secondary research utilized information and statistics published by government departments, publications and studies by industry experts, public company annual and quarterly reports, iResearch's other research reports, online resources and data from iResearch's research database.

iResearch's projection on the size of each of the internet-related markets in mainland China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding, major e-commerce companies, IoT product manufacturers, and those companies' projections of their own results of operations from iResearch's interviews or communications with them, (iii) the projections of other industry experts, and (iv) iResearch's views and estimates of industry developments. iResearch's projections, including those on the market size of IoT hardware market and internet services market, are based on certain assumptions, including (i) the expected growth rate of mainland China's economy and GDP and (ii) the level of improvement of internet infrastructure, internet data cost and internet speed in mainland China, and takes into account of other factors including historical data concerning the size of user base and user behavior. The reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

The IDC Report

IDC is an independent international provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. We have agreed to pay a fee of approximately RMB609,000 to purchase the information contained in the IDC Report for inclusion in this **[REDACTED]**. The IDC Report was published in February 2018. In preparing the IDC Report, IDC conducted primary research, involving vendor and channel interviews at the country, regional, and global levels as well as price collection in the market. IDC has also conducted secondary research involving financial earnings statements, cross-checks with other data feeds such as import/export customs records as well as supply chain feedback. IDC's projections on market sizes are based on a centralized forecast model based on historical data, key macroeconomic assumptions as well as supply chain and vendor feedback on future output. Its market forecasting methodology takes into consideration of various factors, which include (i) historical data, (ii) macroeconomic environment, (iii) key market drivers and restraints of the related market estimated by IDC, and (iv) expert opinions on future development. IDC's projections on the market sizes are based on certain assumptions, including (i) the stability of global and mainland China's social, economic and political environment; (ii) that related key industry drivers remain relevant and applicable in the forecast period; and (iii) that there will be no subversive changes to the related industries.

Directors' confirmation

Our Directors have confirmed, after making reasonable inquiries and exercising reasonable care, that there is no adverse change in the market information since the date of publication of the iResearch Report and IDC Report, which may qualify, contradict or impact the information in this Industry Overview section.

SMARTPHONE MARKET

Smartphone Users

There is a large and growing base of smartphone users globally. According to IDC, the total number of smartphone devices grew from 2,871.0 million in 2015 to 3,665.7 million in 2017, representing a CAGR of 13.0%. This is expected to reach 4,798.5 million by 2022, representing a

CAGR of 5.5% between 2017 and 2022. The following table sets forth the total number of smartphone devices globally and by region:

	Smartphone Installed Base (million)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland China	808.1	850.0	892.3	923.5	950.5	963.1	976.0	994.5	5.1%	2.2%
Emerging Markets[1]	1,301.1	1,642.6	1,933.6	2,168.2	2,363.1	2,543.2	2,711.7	2,863.7	21.9%	8.2%
Rest of the World[2]	761.8	806.5	839.8	866.9	889.7	910.1	925.9	940.4	5.0%	2.3%
Total	2,871.0	3,299.1	3,665.7	3,958.6	4,203.2	4,416.4	4,613.5	4,798.5	13.0%	5.5%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA and Western Europe.

Smartphone adoption is expected to increase globally, with growth being driven by emerging markets. The key underlying growth drivers of the smartphone market include higher internet penetration driven by the roll-out of 4G/LTE and advancement of wireless technology, including 5G. Rising income levels and consumer spending have created increasing demand for better smartphones with higher hardware performance, enhanced user experience and aesthetically pleasing designs. Smartphones have become available at increasingly accessible price points due to a variety of factors, including supply-chain optimizations, direct-to-consumer distribution methods and the availability of multiple price points to cater for various income levels. The following table sets forth smartphone penetration rates globally and by region:

	Smartphone Penetration Rate							
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Mainland China	58.9%	61.7%	64.5%	66.5%	68.2%	69.0%	69.7%	70.9%
Emerging Markets[1]	26.1%	32.5%	37.7%	41.7%	44.8%	47.6%	50.0%	52.2%
Rest of the World[2]	76.0%	80.1%	83.1%	85.4%	87.3%	89.0%	90.3%	91.4%
Total	39.0%	44.3%	48.7%	52.1%	54.7%	56.9%	58.8%	60.6%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA and Western Europe.

Smartphone Unit Shipments & Sales

Global smartphone unit shipments continue to grow with emerging markets exhibiting the highest growth rates. According to IDC, the number of global smartphone shipments grew from 1,437.6 million in 2015 to 1,462.0 million in 2017, representing a CAGR of 0.8%. This is expected to reach 1,678.9 million by 2022, representing a CAGR of 2.8%, with the increased growth being driven by emerging markets, such as India, which was the third largest smartphone market by shipment volume in 2017 and is expected to be the second largest in 2020. The following table sets forth the shipment volume of smartphone devices globally and by region:

	Smartphone Unit Shipments (million)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland China	429.9	467.3	444.3	435.7	429.9	431.1	433.2	434.5	1.7%	(0.4)%
Emerging Markets[1]	621.1	622.1	641.3	681.3	730.6	778.1	822.1	856.6	1.6%	6.0%
Rest of the World[2]	386.5	379.5	376.4	376.2	379.8	381.9	384.2	387.8	(1.3%)	0.6%
Total	1,437.6	1,468.9	1,462.0	1,493.2	1,540.3	1,591.2	1,639.5	1,678.9	0.8%	2.8%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA, and Western Europe.

According to IDC, global smartphone sales grew from US$425.8 billion to US$458.5 billion between 2015 and 2017, representing a CAGR of 3.8%. This is expected to reach US$573.7 billion by 2022, representing a CAGR of 4.6%. The following table sets forth the sales value of smartphone devices globally and by region:

	Smartphone Sales Value (US$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland China	111.8	120.2	133.9	150.4	152.0	167.7	174.8	185.0	9.4%	6.7%
Emerging Markets[1]	132.8	125.3	139.3	149.0	157.0	165.6	171.2	177.4	2.4%	5.0%
Rest of the World[2]	181.2	170.4	185.4	199.3	199.1	202.1	206.7	211.3	1.1%	2.6%
Total	425.8	415.9	458.5	498.8	508.1	535.4	552.6	573.7	3.8%	4.6%

Source: IDC

Notes:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

(2) Rest of the world represents Australia, Canada, Japan, Korea, USA, and Western Europe.

Smartphone Components and Materials

The main components and materials for smartphones include lithium-ion batteries, mobile DRAM memory, mobile NAND memory, mobile SoCs, displays and camera modules. According to iResearch, the average prices of lithium-ion batteries, mobile NAND and 1080-pixel displays have decreased from 2015 to 2017 as a result of continued advancement in technology. The costs of mobile SoCs, mobile DRAM and camera modules saw slight increases from 2015 to 2017. Specifically, mobile DRAM prices decreased in 2016 due to oversupply and weakness in consumer PC related demand before rebounding in 2017 as a result of demand from mobile and server applications. The table below sets forth the historical global average prices per unit of lithium-ion batteries, mobile

DRAM memory, mobile NAND memory, mobile SoCs, displays and camera modules from 2015 to 2017.

	Component Price (US$)		
	2015	2016	2017
Component			
Lithium-ion Battery (US$/kwh)	357.0	293.2	251.8
Mobile DRAM (US$/GB)	6.0	3.5	6.7
Mobile NAND (US$/GB)	0.6	0.4	0.5
Mobile SoC (US$/unit)	34.6	35.2	36.5
1080-pixel Display (US$/unit)	16.0	13.5	12.0
Camera Module (US$/unit)	4.1	4.4	5.1

Source: iResearch

Competitive Landscape

There are significant barriers to entry into the smartphone market given the high upfront costs associated with research and development and the prototyping requirements to manufacture competitive devices. Market entrants need to achieve significant scale in order to realize operating leverage and develop a long-term sustainable business model. Given the current entrenched position of leading smartphone companies and their well-established brand recognition in the market, stabilized supply chain and established distribution channels, it is highly unlikely that new entrants will be able to compete and gain significant market share.

Furthermore, in emerging markets where shipment volume is growing at the fastest pace, shipment volume and smartphone adoption will be driven by accessibly-priced devices with high performance and great user experience. The following table sets forth the percentage contribution of smartphone shipment volume based on price-tier globally and by region, which indicates that the market is driven by smartphones priced between US$200-US$500:

	Smartphone Shipment Volume Contribution by Price Tier		
	2015	2016	2017
Global			
Price Band US$0-US$200	53.6%	52.5%	48.1%
Price Band US$200-US$300	12.0%	14.2%	16.1%
Price Band US$300-US$500	11.1%	13.7%	15.2%
Price Band US$500+	23.3%	19.5%	20.6%
Mainland China			
Price Band US$0-US$200	56.8%	48.1%	39.9%
Price Band US$200-US$300	13.7%	18.3%	18.5%
Price Band US$300-US$500	14.3%	22.9%	28.9%
Price Band US$500+	15.3%	10.8%	12.6%
Emerging Markets(1)			
Price Band US$0-US$200	67.9%	68.9%	64.8%
Price Band US$200-US$300	13.0%	14.4%	17.9%
Price Band US$300-US$500	7.6%	7.4%	7.9%
Price Band US$500+	11.5%	9.3%	9.4%

Source: IDC

Note:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

Key factors that influence customer satisfaction of smartphone products include operating system performance, design appearance, battery performance, CPU performance and camera quality. According to a survey conducted by iResearch evaluating thirteen key factors that influence customer

satisfaction on smartphone brands in March 2018, Xiaomi ranked number one in overall customer satisfaction. Xiaomi is also ranked number one in terms of customer satisfaction among young people under the age of 20. The following table sets forth the market share ranking of smartphone vendors in the fourth quarter of 2017 by unit shipments and their respective YoY unit shipment change.

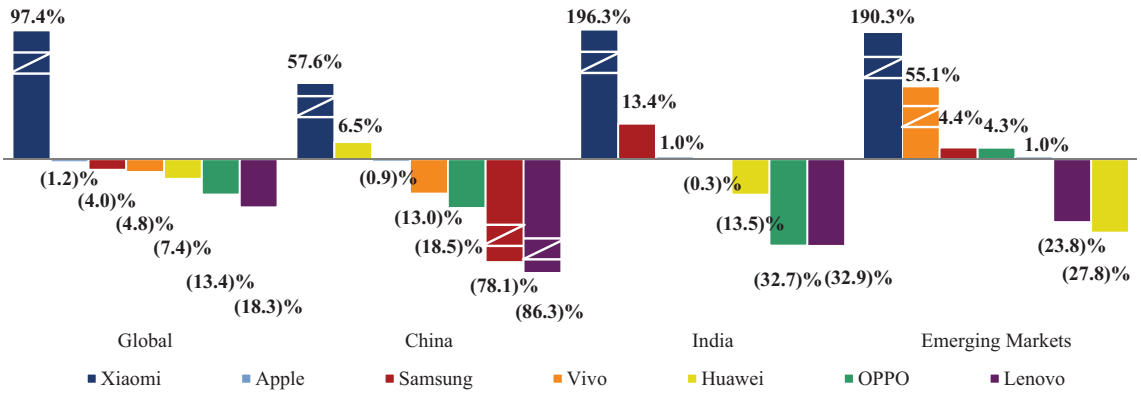
	Smartphone Vendor 4Q2017 Market Share Ranking by Unit Shipments			
Company	**Global**	**Mainland China**	**India**	**Emerging Markets[1]**
Xiaomi	4th (7.2%)	4th (13.9%)	1st (26.8%)	3rd (7.3%)
Apple	1st (19.7%)	5th (12.9%)	9th (2.8%)	2nd (8.5%)
Huawei	3rd (10.7%)	1st (21.3%)	15th (0.8%)	4th (7.0%)
Lenovo	8th (3.1%)	26th (0.1%)	4th (5.6%)	5th (5.5%)
OPPO	5th (6.9%)	2nd (17.5%)	5th (4.9%)	7th (4.4%)
Samsung	2nd (18.9%)	9th (1.0%)	2nd (24.2%)	1st (29.9%)
Vivo	6th (6.0%)	3rd (16.5%)	3rd (6.5%)	9th (2.8%)

Source: IDC

Note:

(1) Emerging markets represents markets outside of Australia, Canada, mainland China, Japan, Korea, USA, and Western Europe.

4Q2017 Unit Shipment YoY Change



Source: IDC

The following table also sets forth the ranking of smartphone brands in the fourth quarter of 2017 by online unit shipments in mainland China and India. In addition to being ranked number one in India for online unit shipments in the fourth quarter of 2017, Xiaomi was also ranked number two in terms of offline smartphone unit shipments in India during the fourth quarter of 2017 with 11% market share, according to IDC.

Mainland China Smartphone Brand Ranking By Online Unit Shipments[1]	**India Smartphone Brand Ranking by Online Unit Shipments[1]**
1) Xiaomi (26.0%)	1) Xiaomi (57.0%)
2) Honor (20.1%)	2) Samsung (9.0%)
3) Apple (10.8%)	3) Motorola (8.9%)
4) Vivo (9.0%)	4) Lenovo (4.0%)
5) OPPO (8.1%)	5) Apple (3.4%)

Source: IDC

Note:

(1) Represents ranking of individual smartphone brands rather than ranking of smartphone companies.

CONSUMER INTERNET OF THINGS ("IOT") MARKET

The internet of things ("**IoT**") is a network of devices (or "**things**") that can communicate seamlessly through the internet. The consumer IoT market refers to the sale of IoT devices and provision of IoT-driven services that are directed towards consumers. Consumer-related applications of IoT span across a variety of categories, including applications across information and entertainment, health and fitness, home automation, home security and safety among others.

According to iResearch, the sale of consumer IoT hardware globally grew from US$306.3 billion in 2015 to US$485.9 billion in 2017, representing a CAGR of 26.0%. This is expected to reach US$1,550.2 billion by 2022, representing a CAGR of 26.1%. The sale of consumer IoT in mainland China grew from US$71.5 billion in 2015 to US$118.8 billion in 2017, representing a CAGR of 28.9%. This is expected to reach US$311.8 billion by 2022, representing a CAGR of 21.3%. The following table sets forth the sales value of consumer IoT hardware globally and in mainland China:

	Sales Value of Global Consumer IoT Hardware Sales (US$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Smart Home Devices	181.7	225.3	293.2	393.3	457.0	509.8	549.5	580.5	27.0%	14.6%
Wearables	12.4	14.9	18.3	23.6	28.3	32.4	35.5	39.2	21.3%	16.5%
Others[1]	112.2	135.1	174.5	252.3	365.7	526.6	715.1	930.6	24.7%	39.8%
Total	306.3	375.3	485.9	669.2	851.1	1,068.9	1,300.1	1,550.2	26.0%	26.1%

Source: iResearch

Note:

(1) Others primarily include the internet of vehicles market, smart healthcare market and others.

	Mainland China Consumer IoT Hardware Sales (US$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Smart Home Devices	58.7	73.2	97.6	126.0	150.1	172.0	188.4	201.0	29.0%	15.5%
Wearables	1.9	2.8	3.8	5.0	6.0	7.0	7.9	8.7	41.4%	17.8%
Others[1]	10.9	13.3	17.3	24.4	35.7	53.3	75.7	102.1	25.9%	42.6%
Total	71.5	89.3	118.8	155.4	191.8	232.3	271.9	311.8	28.9%	21.3%

Source: iResearch

Note:

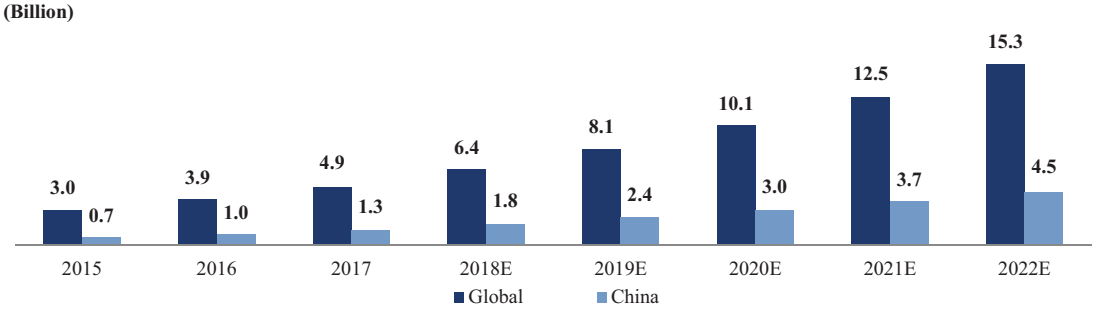
(1) Others primarily include the internet of vehicles market, smart healthcare market and others.

The global consumer IoT market is expected to continue to grow exponentially as a result of advancements in sensor and device processor technology, allowing for internet connectivity to become a more standard feature across a range of consumer products. Furthermore, the ability of providers to increasingly deliver better user experiences by connecting multiple products under a single ecosystem will also propel further user adoption. The roll-out of 5G infrastructure will also support the connection of billions of connected devices that require low latency and high data density. In addition, the continued investment in software technology, cloud infrastructure and AI will enhance IoT services in terms of application, analytics, data sharing and storage.

As a result, there has been a rapid increase in the amount of connected IoT devices surrounding the modern day consumer. According to iResearch, the number of consumer IoT endpoints grew from

3.0 billion in 2015 to 4.9 billion in 2017, representing a CAGR of 27.7%. This is expected to reach 15.3 billion by 2022, representing a CAGR of 25.4% between 2017 and 2022. The following chart sets forth the number of IoT endpoints installed globally:

IoT Endpoint Installed Base



Source: iResearch

The large and rapidly growing base of IoT devices enables the collection of a vast amount of real-time data, which in turn furthers the development of various consumer applications. IoT endpoints enable streaming data analytics used to better understand consumer needs and preferences in order to optimize product performance, deliver better consumer product experiences and launch new products across application scenarios.

Competitive Landscape

A successful consumer IoT strategy requires a company to offer not only high quality and well-designed products, but also a wide range of products that can be seamlessly connected by a single app, such as the Mi Home app, in order to meet users' daily needs.

Xiaomi is the leading IoT platform globally in terms of the number of connected devices as of December 31, 2017, according to iResearch. The following chart sets forth the global market share of consumer IoT hardware by number of connected devices as of December 31, 2017:

	2017 Consumer IoT Market Share by Number of Connected Devices				
	Xiaomi	Apple	Amazon	Samsung	Google
Market Share[1]	1.7%	0.9%	0.9%	0.7%	0.6%

Source: iResearch
Note:
(1) Market share excludes smartphones and laptops

Xiaomi's competitive advantage is its all-encompassing suite of accessibly-priced IoT products that are seamlessly integrated and collectively controlled under the Mi Home app, according to iResearch. Other IoT players either tend to focus more on single product verticals or charge higher prices. As an illustrative example, the following diagram sets forth the comparison of prices required to purchase an ecosystem of IoT products from Xiaomi versus purchasing alternative products with similar specifications.

Comparison of IoT Devices from Xiaomi's Ecosystem and Comparable Counterpart Products[1]

	Smart TV	AI Speaker	Router	Scooter	Wearable	Air Purifier	Induction Heating Rice-cookers	Robot Vacuum Cleaner	Smart Camera	Water Purifer	Total Cost
Xiaomi Model Name	Mi TV	Mi AI Speaker	Mi Router	Mi Electric Scooter	Mi Band	Mi Air Purifier	Mi Induction Heating Pressure Rice Cooker	Mi Robot Vacuum	Mi Home Security Camera	Mi Water Purifier	US$1,185-$2,990
Price	US$138-$1,492	US$26-$46	US$15-$107	US$308	US$23	US$108-$231	US$62-$154	US$260	US$15-$62	US$230-$307	
System	Controlled by Mi Home app										
Counter-part Model Name	Samsung UA series	Sonos One	TP-Link DR series	INMOTION V series	iWatch	Honeywell KJ series	Panasonic SR series	Roomba® series	Ezviz Smart Camera	Philips WP4170	US$3,200 - $7,864
Price	US$446-$3,333	US$279	US$13-$230	US$508	US$249	US$325-$833	US$156-$586	US$741-$1,304	US$22-$81	US$461	
System	Samsung Smarthings	Amazon Alexa	TP-Link Mobile APP	INMOTION Mobile APP	Watch OS 4	JD Smart	Panasonic Smart	iRobot	Ezviz Cloud	Ali Smart Cloud	

Source: iResearch

Note:

(1) The scope of comparison is limited within products available in mainland China

INTERNET SERVICES MARKET

The increased adoption of the internet over time has made it an increasingly important medium through which services are created and delivered. The widespread availability of both mobile and high-speed internet connections has allowed the internet to penetrate across a wide category of services spanning across e-commerce, communication, education, healthcare, media and entertainment, information services, finance and other local services. The internet has become an indispensable tool for individuals to engage with the world.

Internet Services Market Size

According to iResearch, the global internet services market grew from US$1,010.6 billion to US$1,540.9 billion between 2015 and 2017, representing a CAGR of 23.5%. This is expected to reach US$2,600.9 billion by 2022, representing a CAGR of 11.0%. According to iResearch, the Chinese internet services market grew from US$189.1 billion to US$320.2 billion between 2015 and 2017, representing a CAGR of 30.1%. This is expected to reach US$669.2 billion by 2022, representing a CAGR of 15.9%. The internet services market can be further categorized by the following segments: internet retail, online advertising, online games, internet finance, app store and other internet services. The following table sets forth the total internet services market size and internet services market size by segment:

	Global Internet Services Market Size (US$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Internet Retail	494.5	601.4	754.3	901.4	957.0	1,013.7	1,072.7	1,129.7	23.5%	8.4%
Online Advertising	212.2	262.9	312.0	361.7	411.6	461.0	510.7	560.4	21.3%	12.4%
Online Games	139.4	161.5	179.9	195.9	211.8	228.3	244.2	260.4	13.6%	7.7%
Internet Finance	49.7	69.7	94.9	117.6	140.8	163.9	186.8	208.7	38.2%	17.1%
App Store	37.0	52.8	71.0	92.2	109.2	128.4	147.5	165.7	38.6%	18.5%
Other Internet Services	77.8	101.8	128.8	153.8	181.8	213.2	246.2	276.0	28.6%	16.5%
Total	1,010.6	1,250.2	1,540.9	1,822.5	2,012.1	2,208.5	2,408.2	2,600.9	23.5%	11.0%

Source: iResearch

	Mainland China Internet Services Market Size (US$ billion)								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Internet Retail	105.3	129.3	164.4	200.5	224.1	246.1	267.0	286.8	25.0%	11.8%
Online Advertising	35.1	43.4	54.6	70.1	87.6	107.7	130.8	151.6	24.7%	22.7%
Online Games	23.1	26.9	34.9	42.5	49.7	55.7	59.6	62.1	23.0%	12.2%
Internet Finance	13.2	24.2	31.1	39.2	47.6	55.3	62.4	69.2	53.6%	17.3%
App Store	2.1	5.5	12.6	17.3	23.6	28.9	34.9	40.4	145.7%	26.3%
Other Internet Services	10.4	15.8	22.6	29.7	37.2	44.4	51.8	59.1	47.4%	21.2%
Total	189.1	245.2	320.2	399.3	469.9	538.0	606.4	669.2	30.1%	15.9%

Source: iResearch

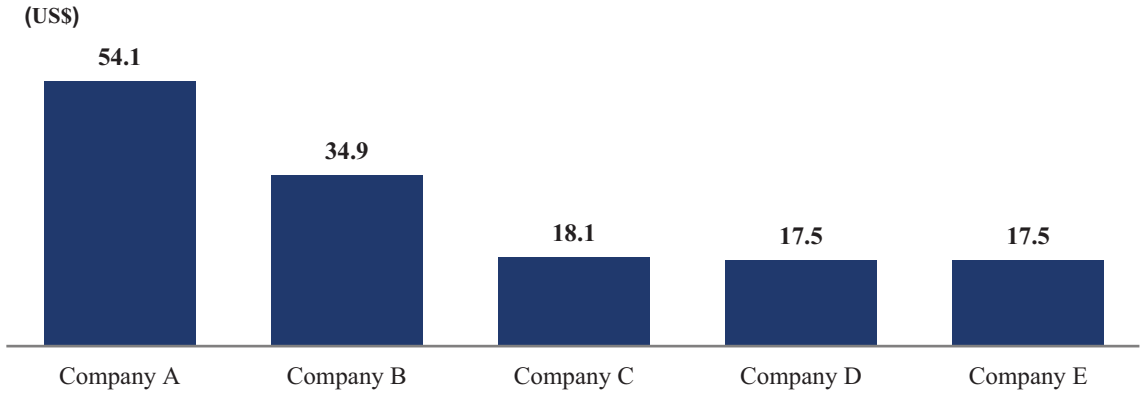
Competitive Landscape

The internet services market is highly competitive and occupied by a large number of players offering competing services. Internet companies typically spend significant amounts of marketing dollars to build and retain their user base. As a result, companies who have the ability to acquire and retain users through the sale of hardware devices increase their internet services competitiveness in terms of lower customer acquisition cost, higher frequency of user engagement and better data collection capabilities.

Cost of Customer Acquisition

The cost of acquiring customers has become an important cost component of any internet service model. Smartphone companies that offer internet services are able to leverage device sales to acquire customers at a profit versus other internet models that incur an expense to do so. The following chart sets forth the 2017 customer acquisition per newly-acquired MAU of internet-only players globally. The following chart shows that selected leading internet companies all have customer acquisition costs, which differs from Xiaomi who profitably acquires users through hardware sales.

2017 Customer Acquisition Cost Per Newly-Acquired MAU for Selected Global Leading Internet Companies(1)



Source: iResearch

Note:

(1) Includes selected leading internet companies with market capitalization of US$15.0 billion and above as of April 27, 2018

Smartphone as a Gateway to Mobile Internet & User Engagement Tool

Smartphones are the primary medium through which consumers access the internet. Global mobile internet users as a percentage of total internet users reached 50.8% in 2017 and is expected to reach 68.6% by 2022 as mobile increasingly becomes the predominant mean to access the internet. The following chart sets forth the number of mobile internet users and their respective penetration rates:

	Global Mobile Internet Users								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Global (million)	3,089.6	3,339.8	3,879.5	4,309.4	4,719.9	5,148.4	5,576.7	6,007.0	12.1%	9.1%
Penetration Rate (% Population)	42.6%	44.7%	50.8%	54.5%	57.7%	61.3%	64.7%	68.6%	9.2%	6.2%

Source: iResearch

	Mainland China Mobile Internet Users								CAGR	
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2015-2017	2017-2022
Mainland China (million)	619.8	695.3	752.6	799.6	843.5	888.4	932.2	976.6	10.2%	5.3%
Penetration Rate (% Population)	45.1%	50.3%	54.1%	57.5%	60.9%	64.5%	68.1%	71.7%	9.6%	5.8%

Source: iResearch

The adoption of smartphones has also significantly increased the amount of time spent on the internet and expanded the addressable market of internet services.

Consequently, smartphone companies are able to capture significant amount of time spent on the internet. For example, Xiaomi's average user time spent per day on its smartphones in March 2018 was approximately 4.5 hours. Given smartphones have become indispensable tools for daily life, companies that offer users innovative hardware combined with engaging internet services enjoy a high level of user engagement.

The Value of Smartphone and IoT Data

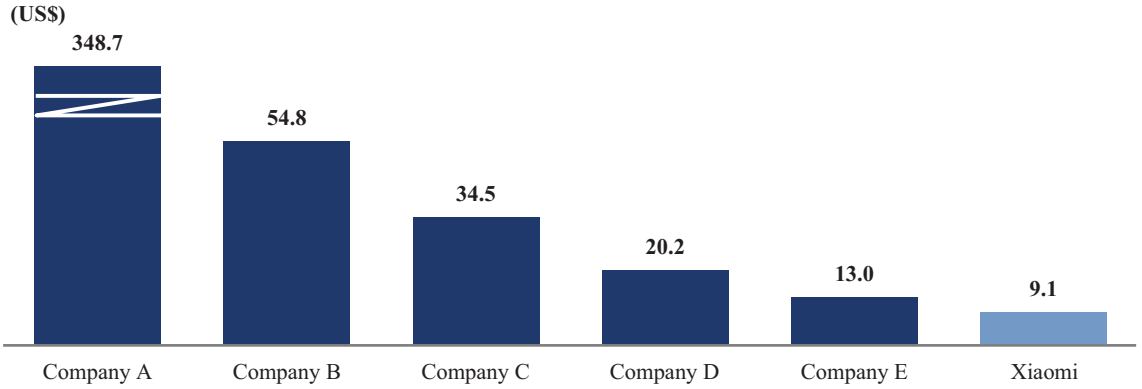
Smartphone usage has permeated almost all aspects of life as an indispensable daily tool and has allowed for the collection of a vast amount of data. Its vast applications span across a range of daily usage scenarios, enabling internet service providers to collect user behavioral, consumption and preference data to drive improvements in user experience and to deliver higher quality services.

The proliferation of IoT is also bringing a significant amount of connected devices online, allowing user data and preferences to be captured anytime anywhere. Companies who also offer IoT products are able to leverage the vast amount of real-time sensor-based data to further develop additional uses cases and applications for consumers, such as AI-enabled products.

User Monetization

Major internet services players are at varying stages of user monetization. The degree to which an internet services player monetizes its users is unique to and subject to the specific player's strategy and maturity of its business model. Xiaomi's average internet services revenue per user of US$9.1 in 2017 still has significant room for further growth when compared to the internet services revenue per user of selected leading internet players globally, according to iResearch.

2017 Internet Services Revenue Per MAU for Selected Global Leading Internet Companies(1)



Source: iResearch

Note:

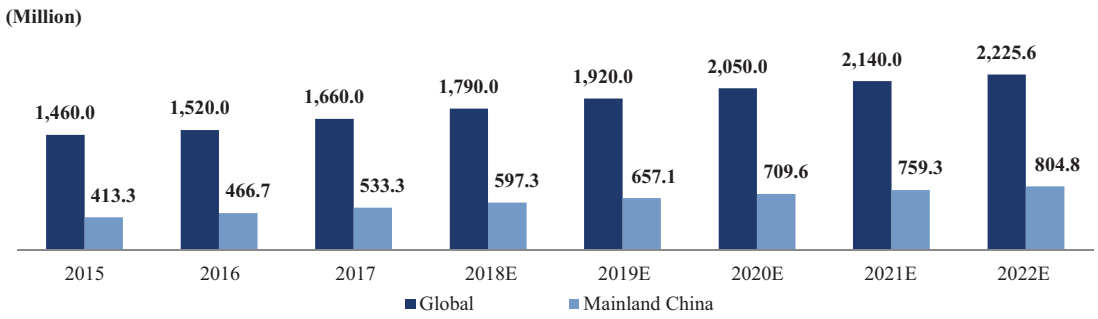
(1) Includes selected leading internet companies with market capitalization of US$15.0 billion and above as of April 27, 2018.

NEW RETAIL

New retail can be understood as the seamless integration of online and offline retail channels through technology to drive efficiency. The integration of online and offline retail channels is highly synergistic and drives customer traffic, which improves overall sales efficiency. New retail also enhances cost efficiency through direct-to-consumer distribution via self-owned online and offline channels to reduce the need for additional distribution layers.

Online retail has developed rapidly as it offers consumers greater product variety and enhances price transparency, allowing consumers to quickly identify products they wish to purchase. Furthermore, the growth of online retail is especially significant in emerging markets where underdeveloped offline retail infrastructure has driven a leapfrogging to online retail. According to iResearch, the number of online shoppers globally reached 1,660.0 million in 2017 and is expected to reach 2,225.6 million by 2022, representing a CAGR of 6.0%. In mainland China, the number of online shoppers reached 533.3 million and is expected to reach 804.8 million by 2022, representing a CAGR 8.6%.

Number of Online Shoppers



Source: iResearch

The online retail market is characterized by numerous players offering different segments of products through different business models, such as platform marketplaces or through direct sales. Xiaomi's Mi Store is the third largest 3C and home appliances direct sales online retail platform in

mainland China and the third largest direct sales online retail platform in India by GMV in 2017, according to iResearch.

Offline retail, however, can supplement online retail and enable further penetration into underdeveloped rural areas where internet penetration is typically lower and where offline retail formats are still preferred by consumers. The below chart sets forth the internet penetration rates in rural and urban regions in mainland China and India, respectively.

	Internet Penetration							
	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Mainland China								
Urban	64.5%	67.6%	70.0%	72.5%	74.8%	77.2%	79.5%	81.9%
Rural	32.0%	33.5%	35.6%	37.7%	39.7%	41.8%	43.9%	45.8%
India								
Urban	60.2%	59.1%	64.1%	67.1%	70.8%	73.7%	77.3%	80.7%
Rural	15.3%	17.7%	20.4%	23.2%	25.9%	28.7%	31.4%	34.2%

Source: iResearch

By leveraging online and offline channels, retailers are able to increase the number of consumers touchpoints and the breadth of services delivered, allowing them to capture a broader user base. This allows them to develop a more in-depth understanding of consumers, enabling them to offer a more seamless and higher quality retail experience.

By focusing on superior user experience and interacting directly with consumers, new retail is able to drive higher sales efficiency as compared to traditional retail. For example, Xiaomi's sales efficiency, as measured by retail sales per squaremeter, ranked second globally and is more than ten times higher than that of leading mainland China traditional retailers in 2017, according to iResearch.

New retail is also focused on efficient distribution by eliminating middlemen. This can be contrasted to the traditional smartphone sales model that typically utilizes many layers of distribution. By reducing unnecessary distribution layers, direct-to-consumer retailers are able to lower channel cost and pass the cost savings to consumers in the form of lower prices, therefore enhancing the overall competitiveness and attractiveness of their product offerings.

The majority of our business are located in mainland China and a significant part of our sales are derived from mainland China. Accordingly, laws and regulations in mainland China are most relevant to our business. These include, but are not limited to, laws and regulations relating to value added telecommunication services, development and sale of mobile phones, mobile internet applications information services, information security and censorship, privacy protection, online games, internet publication and intellectual property. In addition, we also derive a portion of our revenue from Hong Kong and India, and laws and regulations in Hong Kong and India are also considered relevant.

REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

Licenses for Value-Added Telecommunication Services

The Telecommunications Regulations of the People's Republic of China (中華人民共和國電信條例) (the "**Telecommunications Regulations**"), promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, provide a regulatory framework for telecommunications services providers in mainland China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications services into basic telecommunications services and value-added telecommunications services. According to the Catalog of Telecommunications Business (電信業務分類目錄), attached to the Telecommunications Regulations and last amended by the Ministry of Industry and Information Technology ("**MIIT**") on December 28, 2015, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

The Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the "**Internet Measures**"), which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of internet information services. The Internet Measures classified internet information services into commercial internet information services and non-commercial internet information services, and a commercial operator of internet content provision services must obtain a ICP License for the provision of internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing (電信業務經營許可管理辦法), which was promulgated by MIIT on July 3, 2017 and became effective on September 1, 2017, provides that a commercial operator of value-added telecommunications services must first obtain an ICP License, from MIIT or its provincial level counterparts. In addition, in the first quarter of every year while the operator is holding the license, it must report information such as business performance and service quality to the issuing authorities.

Restrictions on Foreign Investment

Foreign direct investment in telecommunications companies in mainland China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (外商投資電信企業管理規定), which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, respectively. The regulations require foreign-invested value-added telecommunications enterprises in mainland China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such

enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in mainland China must demonstrate a good track record and experience in operating a value-added telecommunications business; the main foreign investor is defined as the one who makes the largest contribution among all foreign investors and has a share of 30% or more of the total amount invested by all foreign investors. Moreover, foreign investors that meet these requirements must obtain approvals from MIIT and MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunication business in mainland China.

In July 2006, the Ministry of Information Industry (the "**MII**," which is the predecessor of MIIT) released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business (信息產業部關於加強外商投資經營增值電信業務管理的通知) (the "**MII Notice**"), pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in mainland China. In addition, under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

Investment activities in mainland China by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (revised in 2017) (外商投資產業指導目錄(2017年修訂)) (the "**Catalog**"), which was promulgated jointly by MOFCOM and the National Development and Reform Commission (the "**NDRC**") on June 28, 2017 and became effective on July 28, 2017. The Catalog divides industries into four categories in terms of foreign investment. Those categories are: "encouraged", "restricted", "prohibited" and all industries not listed under one of these categories are deemed to be "permitted". According to the Catalog, the internet information services that the Company's subsidiaries in mainland China currently offer falls within the scope of value-added telecommunications services (except for e-commerce) and internet cultural businesses (except for music), which are under the "restricted" categories and "prohibited" categories, respectively.

REGULATIONS RELATING TO MANUFACTURE AND SELL OF MOBILE PHONES

General Administration of Manufacturing and Selling Mobile Phones

According to the Administrative Regulations for Compulsory Product Certification (强制性產品認證管理規定), which was promulgated by the General Administration of Qualification Supervision, Inspection and Quarantine (the "**AQSIQ**") (which has merged into the State Administration for Market Regulation) on July 3, 2009, products specified by the state shall not be delivered, sold, imported or used in other business activities until they are certified (the "**Compulsory Product Certification**") and labeled with China Compulsory Certification (中國強制認證) mark. For products that are subject to Compulsory Product Certification, the state implements unified product catalogs (the "**3C Catalog**"), unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Pursuant to the First Batch Compulsory Product Certification Product Catalog (第一批實施强制性產品認證的產品目錄) (the "**First Batch 3C Product Catalog**") by the AQSIQ and the Certification and Accreditation Administration (the "**CNCA**") on December 3, 2001, mobile user

terminals and CDMA digital cellular mobile station are required to obtain the Compulsory Product Certification in order to be delivered, sold, imported or used.

Besides the Compulsory Product Certification, the seller of radio component products in mainland China is required to obtain the Radio Transmission Equipment Type Approval Certificate in accordance with the Radio Regulation of the People's Republic of China (中華人民共和國無線電管理條例), which was promulgated by the State Council, Central Military Commission on September 11, 1993, and amended on November 11, 2016, and the Administrative Regulations on Manufacturing of Radio Transmission Equipment (生產無綫電發射設備的管理規定), promulgated by the State Radio Regulation Committee (the "**SRRC**") and the State Bureau of Technical Supervision (the "**SBTS**", the predecessor of the **AQSIQ**) on October 7, 1997.

In addition, the Administrative Measures for the Network Access of Telecommunications Equipment (電信設備進網管理辦法), which was promulgated by the MII on May 10, 2001 and revised by the MIIT on September 23, 2014 provide that the State applies the network access permit system to the telecommunications terminal equipment, radio communications equipment, and equipment relating to network interconnection that is connected to public telecommunications networks. The telecommunications equipment subject to the network access permit system shall obtain the Telecommunications Equipment Network Access Permit issued by the MIIT (the "**Network Access Permit**"). Without the Network Access Permit, no telecommunications equipment is allowed to be connected to the public telecommunications networks for use nor sold on the domestic market. In the event of an application for the Network Access Permit, a production enterprise shall submit a testing report issued by a telecommunications equipment testing institution or a Compulsory Product Certification. In the event of an application for the network access permit for radio transmission equipment, a Radio Transmission Equipment Type Approval Certificate issued by the MIIT shall also be submitted.

Regulations on Product Quality

Products made in mainland China are subject to the Product Quality Law of the People's Republic of China (中華人民共和國產品質量法) (the "**Product Quality Law**"), which was promulgated on February 22, 1993, amended on July 8, 2000 and August 27, 2009. According to the Product Quality Law, a manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not exist at the time when the product was circulated; or (iii) scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The Consumer Rights and Interests Protection Law of the People's Republic of China (中華人民共和國消費者權益保護法) (the "**Consumers Protection Law**") was promulgated on October 31, 1993 and became effective on January 1, 1994. The Consumers Protection Law has been further revised on August 27, 2009 and October 25, 2013. According to the Consumers Protection Law, unless otherwise provided by this law, an operator that provides products or services may bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations. The Tort Law of the People's Republic of China (中華人民共和國侵權責任法), promulgated on December 26, 2009 and came into force on July 1, 2010, provides that in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller

upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

Registration for Import and Export Goods

Pursuant to the Customs Law of the People's Republic of China (中華人民共和國海關法) promulgated by the SCNPC on January 22, 1987 and amended on July 8, 2000, June 29, 2013, December 28, 2013, November 7, 2016 and November 4, 2017 unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

Pursuant to the Administrative Provisions of the Customs of the People's Republic of China on the Registration of Customs Declaration Entities (中華人民共和國海關報關單位注冊登記管理規定) promulgated by the General Administration of Customs on March 13, 2014 and amended on December 20, 2017, coming into force on March 13, 2014, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. The consignor or consignee of imported and exported goods shall register with local customs in accordance with the laws.

REGULATIONS RELATING TO MOBILE INTERNET APPLICATIONS INFORMATION SERVICES

Mobile internet application is governed by the Provisions on the Administration of Mobile Internet Applications Information Services (移動互聯網應用程序信息服務管理規定) (the "**Provisions on Administration of Application**") promulgated by the Cyberspace Administration of China on June 28, 2016 and became effective on August 1, 2016.

Pursuant to the Provisions on Administration of Application, application information service providers shall obtain the relevant qualifications prescribed by laws and regulations, strictly implement their information security management responsibilities, and carry out the duties including to establish and complete user information security protection mechanism, to establish and complete information content inspection and management mechanisms, to protect users' right to know and right to choose in the process of usage, and to record users' daily information and preserve it for 60 days. Application store services providers shall, within 30 days of the business going online and starting operations, conduct filing procedures with the local cybersecurity and informatization department. Furthermore, internet application store service providers and internet application information service providers shall sign service agreements to determinate both sides' rights and obligations.

REGULATIONS RELATING TO INFORMATION SECURITY AND CENSORSHIP

Internet content in mainland China is regulated and restricted from a state security standpoint. The Standing Committee of the National People's Congress ("**SCNPC**") enacted the Decisions on the Maintenance of Internet Security (維護互聯網安全的決定) on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in mainland China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe intellectual property rights. In 1997, the Ministry of Public Security issued the Administration

Measures on the Security Protection of Computer Information Network with International Connections (計算機信息網絡國際聯網安全保護管理辦法), which were amended by the State Council on January 8, 2011 and prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP License holder violates these measures, the government of the People's Republic of China may revoke its ICP License and shut down its websites.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the People's Republic of China (中華人民共和國網絡安全法), which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of mainland China all the personal information and important data collected and produced within the territory of mainland China. The purchase of network products and services that may affect national security shall be subject to national cyber security review. On May 2, 2017, the CAC issued a trial version of the Measures for the Security Review of Network Products and Services (Trial) (網絡產品和服務安全審查辦法(試行)), which took effect on June 1, 2017, to provide for more detailed rules regarding cyber security review requirements.

REGULATIONS RELATING TO PRIVACY PROTECTION

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection (互聯網安全保護技術措施規定) (the "**Internet Protection Measures**") which took effect on March 1, 2006. The Internet Protection Measures require internet service providers to take proper measures including anti-virus, data back-up and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. In December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection (關於加強網絡信息保護的決定) to enhance the legal protection of information security and privacy on the internet. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users (電信和互聯網用戶個人信息保護規定) to regulate the collection and use of users' personal information in the provision of telecommunication services and internet information services in mainland China and the personal information includes a user's name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. On December 29, 2011, the MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market (規範互聯網信息服務市場秩序若干規定), which became effective on March 15, 2012. The Provisions stipulate that without the consent of users, internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information, nor shall they provide personal information of

users to others, unless otherwise provided by laws and administrative regulations. On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information (最高人民法院、最高人民檢察院關於辦理侵犯公民個人信息刑事案件適用法律若干問題的解釋), which clarifies several concepts regarding the crime of "infringement of citizens' personal information" stipulated by Article 253A of the Criminal Law of the People's Republic of China (中華人民共和國刑法), including "citizen's personal information," "provision," and "unlawful acquisition." Also, it specifies the standards for determining "serious circumstances" and "particularly serious circumstances" of this crime.

REGULATIONS RELATING TO ONLINE GAMES

General Administration of Online Games

The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the Ministry of Culture (which has merged into the Ministry of Culture and Tourism), the State Administration of Radio, Film, and Television ("**SARFT**") (which has merged into GAPPRFT) and the GAPP (關於印發<中央編辦對文化部、廣電總局、新聞出版總署<"三定"規定>中有關動漫、網絡游戲和文化市場綜合執法的部分條文的解釋>的通知), which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that the GAPP will be responsible for the examination and approval of online games to be uploaded on the internet and that, after such upload, online games will be administered by the Ministry of Culture.

The Interim Measures for the Administration of Internet Games (網絡游戲管理暫行辦法) (the "**Internet Game Measures**"), issued by the Ministry of Culture on June 3, 2010, amended on December 15, 2017, regulate a broad range of activities related to the internet game business, including the development and production of internet games, the operation of internet games, the issuance of virtual currencies used for internet games, and virtual currency trading services. The Internet Game Measures provides that any entity that is engaged in internet game operations must obtain an online culture operating permit, and require the content of an imported internet game to be examined and approved by the Ministry of Culture prior to the launch of the game and the content of a domestic internet game must be filed within 30 days of its launch with the Ministry of Culture. The Internet Game Measures also request internet game operators to protect the interests of online players and specify certain terms that must be included in the service agreements between internet game operators and the players of their internet games. The Notice of the Ministry of Culture on the Implementation of the Interim Measure for the Administration of Online Games (文化部關於貫徹實施<網絡游戲管理暫行辦法>的通知) issued by the Ministry of Culture and which took effect on July 29, 2010 specifies entities regulated by the Online Game Measures and procedures related to the review of the Ministry of Culture of the content of online games, emphasizes the importance of protecting minors playing online games and requests online game operators to promote real-name registration by their players.

On May 24, 2016, GAPPRFT promulgated the Notice on the Administration over Mobile Game Publishing Services (關於移動游戲出版服務管理的通知), which became effective as of July 1, 2016. The Notice provides that game publishing service entities shall be responsible for examining the contents of their games and applying for game publication numbers. On December 1, 2016, the

Ministry of Culture promulgated the Circular of the Ministry of Culture on Regulating the Operation of Online Games and Strengthening the Interim and Ex Post Supervision (文化部關於規範網絡游戲運營加强事中事後監管工作的通知), which became effective on May 1, 2017. The Circular sets requirements in relation to the following aspects of online games: (i) clarifying the scope of online game operation; (ii) regulating services for issuance of virtual props of online games; (iii) strengthening the protection of the rights and interests of online game users; (iv) strengthening the interim and ex post supervision of online game operation; and (v) seriously investigating and punishing illegal operating activities.

Regulations on Anti-fatigue Compliance System and Real-name Registration

On April 15, 2007, in order to curb addictive online game-playing by minors, eight government authorities of the People's Republic of China, including the GAPP, the Ministry of Education, the Ministry of Public Security and the MIIT, jointly issued the Notice on Protecting Minors Mental and Physical health and Implementation of Online Game Anti-fatigue System (關於保護未成年人身心健康實施網絡游戲防沉迷系統的通知) requiring the implementation of an anti-fatigue compliance system and a real-name registration system by all Chinese online game operators. Under the anti-fatigue compliance system, three hours or less of continuous playing by minors, defined as game players under 18 years of age, is considered to be "healthy," three to five hours is deemed "fatiguing," and five hours or more is deemed "unhealthy." Game operators are required to reduce the value of in-game benefits to a game player by half if it discovers that the amount of time a game player spends online has reached the "fatiguing" level, and to zero in the case of the "unhealthy" level. To identify whether a game player is a minor and thus subject to the anti-fatigue compliance system, a real-name registration system should be adopted to require online game players to register their real identity information before playing online games.

Regulations on Virtual Currency

On June 4, 2009, the Ministry of Culture and the MOFCOM jointly issued the Notice on Strengthening the Administration of Online Game Virtual Currency (關於加強網絡遊戲虛擬貨幣管理工作的通知) (the "**Virtual Currency Notice**"). The Virtual Currency Notice requires businesses that (a) issue online game virtual currency (in the form of prepaid cards and/or pre-payment or prepaid card points), or (b) offer online game virtual currency transaction services to apply for approval from the Ministry of Culture through its provincial branches within three months after the issuance of the notice. The Virtual Currency Notice prohibits businesses that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any business that fails to submit the requisite application will be subject to sanctions, including, without limitation, mandatory corrective measures and fines.

Restrictions on Foreign Investment

The Notice Regarding the Consistent Implementation of the "Regulation on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (關於貫徹落實國務院<"三定"規定>和中央編辦有關解釋，進一步加强網絡游戲前置審批和進口網絡游戲審批管理的通知) (the "**GAPP Notice**"), promulgated by the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or

engage in online game operations in mainland China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations.

REGULATIONS RELATING TO INTERNET PUBLICATION

License for Internet Publication

On February 4, 2016, the GAPP and the MIIT jointly issued the Regulations on Administration of Internet Publication Services (網絡出版服務管理規定) (the "**Internet Publication Regulations**"), which became effective on March 10, 2016. The Internet Publication Regulations imposed a license requirement (the "**Internet Publishing Service License**" for internet publishing activities.

Restrictions on Internet Content

The content of the internet information is also highly regulated in mainland China. On February 16, 2007, the GAPP promulgated the Notice of the General Administration of Press and Publication on Strengthening Review Work of Audio-visual Products and Electronic Publication Items and Internet Publication Items (新聞出版總署關於加强音像製品、電子出版物和網絡出版物審讀工作的通知), pursuant to which GAPP shall strengthen the review of internet publication items, including (i) annual topic plan review for those unpublished video and audio products and electronic publication, (ii) special review and daily review for published video and audio products and electronic publication; and (iii) regulation of internet publication content. According to the Internet Measures, violators who provide prohibited internet content may be subject to penalties, including criminal sanctions, operation suspension and rectification, or even revoking ICP Licenses.

Internet information service providers are also required to monitor their websites. Pursuant to the Internet Publication Regulations, the entities providing internet publication services shall adopt a system of responsibility for examination of the content of publications, an editor responsibility system, a proofreader responsibility system, and other management systems to ensure the quality of its web publications.

Restrictions on Foreign Investment

Investment activities in mainland China by foreign investors are mainly governed by the Catalog, which was promulgated jointly by MOFCOM and NDRC on June 28, 2017 and became effective on July 28, 2017. The Catalog divides industries into four categories in terms of foreign investment. Those categories are: "encouraged," "restricted," "prohibited" and all industries not listed under one of these categories are deemed to be "permitted." According to the Catalog, the internet information services that the Company's subsidiaries in mainland China currently offer falls within the scope of value-added telecommunications services (except for e-commerce) and internet cultural businesses (except for music), which are under the "restricted" categories and "prohibited" categories, respectively. "Book editing" is under the "prohibited" categories as a newly added item.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The Copyright Law

China has enacted various laws and regulations relating to the protection of copyright. China is a signatory to some major international conventions on protection of copyright and became a member

of the Berne Convention for the Protection of Literary and Artistic Works in October, 1992, the Universal Copyright Convention in October, 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the People's Republic of China (Revised in 2010) (中華人民共和國著作權法 (2010年修訂)) (the "**Copyright Law**") provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

Under the Regulation on Protection of the Right to Network Dissemination of Information (信息網絡傳播權保護條例) that took effect on July 1, 2006 and was amended on January 30, 2013, it is further provided that an internet information service provider may be held liable under various situations, including if it knows or should reasonably have known a copyright infringement through the internet and the service provider fails to take measures to remove or block or disconnects links to the relevant content, or, although not aware of the infringement, the internet information service provider fails to take such measures upon receipt of the copyright holder's notice of infringement.

The Circular on Strengthening the Copyright Administration of Internet Literary Works (關於加强網絡文學作品版權管理的通知) promulgated by National Copyright Administration (the "**NCA**") on November 4, 2016 and effective from November 4, 2016 provides that internet service providers who provide literary works through information networks and render relevant network services shall strengthen the copyright supervision and administration, establish a sound infringing works handling mechanism, and fulfill the obligation to protect the copyright of internet literary works according to the law, shall fulfill the obligation to review the copyright of literary works disseminated and exercise their duty of care according to the law. Except as otherwise provided by laws and regulations, without the permission of right holders, the dissemination of their literary works shall be prohibited and shall establish a copyright complaint mechanism, actively accept complaints from right holders, and resolve the legitimate demands of right holders in a timely manner according to the law.

Measures on Administrative Protection of Internet Copyright (互聯網著作權行政保護辦法), that were promulgated by the MII and NCA and took effect on May 30, 2005, provided that an internet information service provider shall take measures to remove the relevant contents, record relevant information after receiving the notice from the copyright owner that some content communicated through internet infringes upon his/its copyright and preserve the copyright owner's notice for 6 months. Where an internet information service provider clearly knows an internet content provider's tortuous act of infringing upon another's copyright through internet, or fails to take measures to remove relevant contents after receipt of the copyright owner's notice although it does not know it clearly, and meanwhile damages public benefits, the infringer shall be ordered to stop the tortious act, and may be imposed of confiscation of the illegal proceeds and a fine of not more than 3 times the illegal business amount; if the illegal business amount is difficult to be calculated, a fine of not more than RMB100,000 may be imposed.

The Notice on Regulating Copyright Order of Internet Reproduction (關於規範網絡轉載版權秩序的通知) issued by the NCA in 2015 includes the following four major points: (i) clarify certain important issues related to internet copyrights in existing laws and regulations, including the definition

of news, clarify statutory licenses that are not applicable to internet copyrights and prohibit the distortion of title and work intent; (ii) guide the press and media to further improve the internal management of copyrights, especially requesting the press to clarify the copyright sources of their content; (iii) encourage the press and internet media to actively carry out copyright cooperation; and (iv) ask the copyright administrations at all levels to strictly implement copyright supervision.

The Computer Software Copyright Registration Measures (計算機軟件著作權登記辦法) (the "**Software Copyright Measures**"), promulgated by the National Copyright Administration on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China (the "**CPCC**"), is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations (計算機軟件保護條例).

The Trademark Law

Trademarks are protected by the Trademark Law of the People's Republic of China (中華人民共和國商標法) which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001 and August 30, 2013 respectively as well as the Implementation Regulation of the Trademark Law of the People's Republic of China adopted by the State Council on August 3, 2002 (Revised in 2014) (中華人民共和國商標法實施條例(2014年修訂)). In mainland China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

The Trademark Office under the State Administration for Industry and Commerce ("**SAIC**") (which has merged into the State Administration for Market Regulation), handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements must be filed with the Trademark Office to be recorded. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As for trademarks, the Trademark Law of the People's Republic of China has adopted a "first come, first file" principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

Domain Names

Internet domain name registration and related matters are primarily regulated by CNNIC Implementing Rules of Domain Name Registration (中國互聯網絡信息中心域名注冊實施細則) issued

by China Internet Network Information Center ("**CNNIC**"), the domain name registrar of mainland China, which became effective on May 29, 2012, the Administrative Measures for Internet Domain Names (互聯網域名管理辦法), issued by MIIT on August 24, 2017 and effective as of November 1, 2017, and the Measures on Domain Name Disputes Resolution (域名爭議解決辦法) issued by CNNIC which became effective on September 1, 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

Patent Law

According to the Patent Law of the People's Republic of China (中華人民共和國專利法) amended on December 27, 2008 and the Detailed Rule for the Implementation of Patent Law amended on January 9, 2010 (中華人民共和國專利法實施細則), patent is divided into three categories: invention patent, utility model patent, and design patent.

Invention patent is intended to protect new technical solution for a product. The applicant for invention patent must prove that the subject matter product possesses novelty, creativity and practical applicability. The grant of invention patent is subject to disclosure and publication. Normally, the patent administrative authority publishes the application within 18 months after it is filed and if it meets the requirements of this Law in its preliminary review, which may be shortened upon request by the applicant. The patent administrative authority conducts a substantive review within three years from the date the application is filed. The term of protection is 20 years from the date of application. Once the invention patent right is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, offering for sale, sale or import of the patented product, or use the patented method or otherwise engage in the use, offering for sale, sale or import of the product directly derived from applying the patented method, without the licensing of the patent holder.

Utility model patent is intended to protect new technical solution in relation to a product's shape, structure or a combination thereof, which is fit for practical use. The applicant for utility model patent must prove that the subject matter product possesses novelty, creativity and practical applicability. Utility patent is granted and registered upon application unless there are reasons for the patent administrative authority to reject the application after its preliminary review. The utility model patent is subject to the disclosure and publication upon application. The term of protection is 10 years from the date of application. Once the utility patent right is granted, unless otherwise permitted by law, no individuals or entities are permitted to engage in the manufacture, use, offering for sale, sale or import of the patented product, or use the patented method or otherwise engage in use, offering for sale, sale or import of the product directly derived from applying the patented method, without the licensing of the patent holder.

Design patent is intended to protect new design of a product's shape, pattern or a combination thereof as well as its combination with the color and the shape or pattern of a product, which creates an esthetic feeling and is fit for industrial application. The applicant for design patent protection must prove that the subject that for matter product is not identical to a prior design. The application procedure and term of protection is the same as that for utility patent. Once a design patent is granted, no individuals or entities are permitted to engage in the manufacture, offering for sale, sale or import of the product protected by such design patent, without the licensing of the patent holder.

REGULATIONS RELATING TO FINANCIAL BUSINESS

Regulations on Internet Insurance Brokerage

According to the Interim Measures for the Supervision of the Internet Insurance Business (互聯網保險業務監管暫行辦法) promulgated the China Insurance Regulatory Commission ("**CIRC**", now merged into the China Bank and Insurance Regulatory Commission) on July 22, 2015 and implemented on October 1, 2015, insurance institutions which carry out internet insurance business shall comply with the relevant provisions and shall not damage the lawful rights and interests of insurance consumers and public interest. Insurance institutions shall scientifically evaluate their risk management and control capability and customer service capability, and rationally determine insurance products appropriate for internet operations and the marketing scope thereof. If they cannot guarantee customer service quality or risk management and control, they shall make adjustments in a timely manner. Insurance institutions shall ensure that internet insurance consumers enjoy insurance services such as insurance purchase and claim settlement that are not less than those from any other business channel, and guarantee the safety of insurance transaction information and consumer information. Insurance institutions shall manage and take charge of insurance operations of the internet insurance business, including sales, underwriting, claim settlement, surrender, handling of complaints, and customer services. Third-party network platforms that engage in the aforesaid insurance business shall have obtained the qualification to engage in the insurance business. Pursuant to the Announcement on Permitting Foreign Insurance Brokerage Companies to Establish Wholly Foreign-owned Insurance Brokerage Companies (關於允許外國保險經紀公司設立外商獨資保險經紀公司的公告) promulgated by the CIRC on December 11, 2006, from December 11, 2006, foreign insurance brokerage companies are allowed to establish wholly foreign-owned insurance brokerage companies according to law without any restriction other than those on conditions for establishment and business scope.

Regulations on Micro Lending Business

Pursuant to the Guiding Opinions on the Pilot Operation of Micro Lending Companies (關於小額貸款公司試點的指導意見) promulgated by the China Bank Regulatory Commission ("**CBRC**", now merged into the China Bank and Insurance Regulatory Commission) and the People's Bank of China ("**PBOC**") on May 4, 2008, to apply for setting up a micro lending company, the applicant shall file an application in due form with the competent department of the provincial government, and, upon approval, it shall apply to the local administrative department for industry and commerce for handling the registration formalities and get the business license. The major sources of funds of a micro lending company shall be the capital paid by shareholders, donated capital and the capital borrowed from at most two banking financial institutions. The balance of the capital borrowed from banking financial institutions shall not exceed 50% of the net capital within the scope as prescribed by laws and regulations. The loan interest ceiling shall be left open but below the ceiling determined by the judicial department, and the floor interest rate shall be 0.9 times the base rate published by PBOC.

Regulations on Payment Business

Pursuant to the Administrative Measures for the Payment Services Provided by Non-financial Institutions (非金融機構支付服務管理辦法) promulgated by the PBOC on May 19, 2010, to provide payment services, a non-financial institution shall obtain a Payment Business Permit and become a payment institution. An applicant for a Payment Business Permit a limited liability company or joint-stock company legally formed inside the People's Republic of China and it is the corporate body of a non-financial institution. A payment institution shall file the statistical statements, financial accounting

report and other relevant materials on its payment business with the local branch of the PBOC as required, and the proportion of its paid-in monetary capital against its daily average balance of clients' deposits shall not be lower than 10%. Where any payment institution continues to operate the payment business after its Payment Business Permit has expired, the PBOC or the branch thereof shall order it to terminate the payment business. On January 13, 2017, the PBOC promulgated the Notice on Matters concerning Implementing the Centralized Deposit of the Funds of Pending Payments of Clients of Payment Institutions (關於實施支付機構客戶備付金集中存管有關事項的通知). According to which, beginning on April 17, 2017, a payment institution shall deposit a certain percentage of the funds of pending payments of its clients in a special deposit account with a designated institution, and there is no interest on the funds in such an account for the time being. The percentage was adjusted by PBOC on December 29, 2017 in the Notice on Adjusting the Centralized Deposit Percentage of the Funds of Pending Payments of Clients of Payment Institutions (關於調整支付機構客戶備付金集中交存比例的通知), which requires the centralized deposit percentage to be raised by 10% on a monthly basis from February to April 2018.

Regulations on Commercial Factoring

The commercial factoring is a relatively new business model in mainland China, MOFCOM had issued circulars to promote commercial factoring in the specific regions. Pursuant to the Circular on the Pilot Work of Commercial Factoring (關於商業保理試點有關工作的通知), which was promulgated by the MOFCOM on June 27, 2012, a trial implementation of commercial factoring pilot work was permitted in Tianjin Binhai New Area and Shanghai Pudong New Area to explore the approaches to develop the commercial factoring and to better utilize its role in expanding the export and promoting the development of small and medium enterprises. Later in December 2012, the said trial implementation of commercial factoring pilot work was extended to Guangzhou and Shenzhen, which allowed qualified investors from Hong Kong and Macau to establish commercial factoring company in the said cities. Pursuant to the Reply of the Ministry of Commerce on Launching Pilot Commercial Factoring Business in the Chongqing Liang Jiang New Area, the Sunan Modernization Development Demonstration Zone and the Suzhou Industrial Park (商務部關於在重慶兩江新區、蘇南現代化建設示範區、蘇州工業園區開展商業保理試點有關問題的復函), released by the MOFCOM on August 26, 2013, and amended on October 28, 2015, the trial implementation of commercial factoring was extended to Chonqing Liangjiang New Area, Sunan Modernization Development Demonstration Zone, and the Suzhou Industrial Park.

REGULATIONS RELATING TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

Under the Foreign Exchange Administration Rules of the People's Republic of China (中華人民共和國外匯管理條例), promulgated on January 29, 1996 and last amended on August 5, 2008, and various regulations issued by the State Administration of Foreign Exchange ("**SAFE**") and other relevant government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within mainland China must be made in Renminbi. Unless otherwise required by SAFE, Chinese companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with

designated foreign exchange banks under the current account items subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of mainland China.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the "**SAFE Circular No. 59**") promulgated by SAFE on November 19, 2012, that became effective on December 17, 2012 and was further amended on May 4, 2015, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment. SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities from Chinese party, and further improved the administration on exchange settlement of foreign exchange capital of foreign invested entities.

On July 4, 2014, SAFE promulgated the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) ("**Circular 37**") (the "**Circular No. 37**"), effective as of July 4, 2014. Under Circular No. 37, (1) a resident in mainland China must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the Chinese resident for the purpose of conducting investment or financing; and (2) following the initial registration, the Chinese resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV's resident shareholder in mainland China, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the Chinese resident, share transfer or swap, and merger or division. Additionally, pursuant to the Notice of SAFE on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知), or SAFE Notice No. 13, which was promulgated on February 13, 2015 and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with SAFE Notice No. 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

The Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) ("**Circular 19**") was promulgated on March 30, 2015 and became effective on June 1, 2015. According to the SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account

for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the "**SAFE Notice No. 16**") was promulgated and became effective on June 9, 2016. According to the SAFE Notice No. 16, enterprises registered in mainland China may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in mainland China. The SAFE Notice No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within mainland China unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for unrelated enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (the "**Stock Option Rules**"), individuals participating in any stock incentive plan of any overseas publicly listed company who are Chinese citizens or foreign citizens who reside in mainland China for a continuous period of not less than one year, subject to a few exceptions are required to register with SAFE or its local branches and complete certain other procedures through a domestic qualified agent, which could be a Chinese subsidiary of such overseas listed company, and complete certain other procedures. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the agent in mainland China is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the mainland Chinese agent or the overseas entrusted institution or other material changes. The mainland Chinese agents must, on behalf of the mainland Chinese residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the mainland Chinese residents' exercise of the employee share options. The foreign exchange proceeds received by the mainland Chinese residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in mainland China opened by the mainland Chinese agents before distribution to such mainland Chinese residents. Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives (國家税務總局關於股權激勵有關個人所得税問題的通知) promulgated by the SAT and effective from August 24, 2009, listed companies and their domestic organizations shall, according to the individual income tax calculation methods for "wage and salary income" and stock option income, lawfully withhold and pay individual income tax on such income.

REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the dividend distribution of dividends by foreign-invested enterprises in mainland China include the Company Law of the People's Republic of China (中華人民共和國公司法), as amended in 2005 and in 2013, the Wholly Foreign Owned Enterprise Law

of the People's Republic of China (中華人民共和國外資企業法) and its Implementing Rules, the Equity Joint Venture Law of the People's Republic of China (中華人民共和國中外合資經營企業法) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and last amended in 2014, and the Cooperative Joint Venture Law of the People's Republic of China (中華人民共和國中外合作經營企業法) promulgated in 1988 and last amended in 2016 and its implementation regulations promulgated in 1995 and amended in 2014. Under the current regulatory regime in mainland China, foreign-invested enterprises in mainland China may pay dividends only out of their accumulated profit, if any, determined in accordance with mainland Chinese accounting standards and regulations. A mainland Chinese company is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A mainland Chinese company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS RELATING TO LOANS BETWEEN FOREIGN COMPANY AND ITS CHINESE SUBSIDIARIES

A loan made by foreign investors as shareholders in a foreign invested enterprise is considered to be foreign debt in mainland China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration (中華人民共和國外匯管理條例) promulgated by the State Council, the Interim Provisions on the Management of Foreign Debts (外債管理暫行辦法) promulgated by the SAFE, NDRC and the Ministry of Finance and executed on March 1, 2003, the Statistical Monitoring of Foreign Debts Tentative Provisions (外債統計監測暫行規定) promulgated by the SAFE on August 27, 1987, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt (外債統計監測實施細則) effective on January 1, 1998, the Regulations on Foreign Exchange Sale, Purchase and Payment (結匯、售匯及付匯管理規定) promulgated by the PBOC on 1996 and the Administrative Measures for Registration of Foreign Debts (外債登記管理辦法) promulgated by SAFE on April 28, 2013.

Under these rules and regulations, a shareholder loan in the form of foreign debt made to a Chinese entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches. According to the Law of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得税法), any interest payments, if any, on the loans are subject to a 10% withholding tax unless any such foreign shareholder's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Pursuant to the Interim Provisions of the State Administration for Industry and Commerce on the Ratio of the Registered Capital to the Total Investment of a Sino-Foreign Equity Joint Venture Enterprise (國家工商行政管 理局關於中外合資經營企業註冊資本與投資總額比例的暫行規定), promulgated by SAIC on February 17, 1987, if the amount of foreign exchange debt of a foreign invested enterprise exceeds its borrowing limits, the enterprise is required to apply to the relevant Chinese regulatory authorities to increase the total investment amount and registered capital to allow the excess foreign exchange debt to be registered with SAFE.

REGULATIONS RELATING TO WHOLLY FOREIGN-OWNED ENTERPRISE

Under the Wholly Foreign Owned Enterprise Law of the People's Republic of China (中華人民共和國外資企業法) as amended on September 3, 2016 and the Detailed Implementing Rules for the

Wholly Foreign-Owned Enterprise Law of the People's Republic China (中華人民共和國外資企業法實施細則) as amended on February 19, 2014, an application for establishing a wholly foreign owned enterprise (the "**WFOE**"), shall be subject to examination and approval by the MOFCOM before the approval certificate is issued.

On September 3, 2016, the Decision of the Standing Committee of the National People's Congress on Revising Four Laws including the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (全國人民代表大會常務委員會關於修改<中華人民共和國外資企業法>等四部法律的決定) (the "**Decision on Revision of Four Laws**") was promulgated and became effective on October 1, 2016. On October 8, 2016, MOFCOM published the Interim Measures for the Administration of Establishment and Change Filings of Foreign-invested Enterprises (外商投資企業設立及變更備案管理暫行辦法) (the "**Filings Measures**") which is amended and effective on July 30, 2017. The Decision on Revision of Four Laws and the Filings Measures revised relevant administrative approval provisions of the Wholly Foreign Owned Enterprise Law of the People's Republic of China (中華人民共和國外資企業法) and other relevant laws, and the relevant formality regime for the incorporation and change of foreign-invested enterprises, whereby if the incorporation or change of foreign-invested enterprises and enterprises does not involve special access administrative measures prescribed by the Chinese government (the "**Negative List**"), the examination and approval process is now being replaced by the record-filing administration process. According to the Filings Measures, where the incorporation of foreign invested enterprises do not fall within the Negative List, such enterprises shall go through the record-filing procedures after obtaining the prior approval of the enterprise name and prior to the issuance of a business license, or within 30 days after the issuance of a business license. Within the record-filing scope of the Filings Measures, in the case of a change of basic information of the foreign-invested enterprises or their investors, a change of the basic information about the merger and acquisition transaction of the incorporated foreign-invested enterprise, a change of equity (shares) or cooperation interest of the foreign-invested enterprises, merger, division or dissolution, mortgage or transfer of foreign-invested enterprises' property or rights and interests to others and other matters, the foreign-invested enterprises shall file the relevant documents online within 30 days upon occurrence of such changes via the comprehensive administrative system. On October 8, 2016, the announcement of the NDRC and the MOFCOM [2016] No. 22 (中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號) was published and specified that the Negative List shall be in line with the Catalog.

REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

On August 8, 2006, six Chinese governmental and regulatory agencies, including MOFCOM and CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in mainland China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by mainland

Chinese companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WARFARE

The Labor Contract Law

The Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法) (the "**Labor Contract Law**"), which was implemented on January 1, 2008 and amended on December 28, 2012, is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner. In addition, according to the Labor Contract Law: (i) employers must pay laborers double income in circumstances where within one year an employer fails to enter into an employment contract that is more than a month but less than a year from the date of employment and if such period exceeds one year, the parties are deemed to have entered into a labor contract with an "unfixed term"; (ii) employees who fulfill certain criteria, including having worked for the same employer continuously for ten years or more, may demand that the employer execute a labor contract with them with an unfixed term; (iii) employees must adhere to regulations in the labor contracts concerning commercial confidentiality and non-competition; (iv) if an employer pays for an employee professional training, the labor contract may specify a term of service, but an upper limit not exceeding the cost of training supplied to the employee has been set as the amount of compensation an employer may seek for an employee's breach of the provisions concerning term of services in the labor contract; (v) employees may terminate their employment contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; (vi) employers who demand money or property from employees as guarantee or otherwise may be subject to a fine of more than RMB500 but less than RMB2,000 per employee; and (vii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay such employees compensation ranging from 50% to 100% of the amount of salary so deprived if they fail to pay the salary deprived within ascertain period by the labor administration authorities.

According to the Labor Law of the People's Republic of China (中華人民共和國勞動法) promulgated on July 5, 1994 and became effective on January 1, 1995 and amended on August 27, 2009, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in mainland China. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (工傷保險條例) implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (企業職工生育保險試行辦法) implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (國務

院關於建立統一的企業職工基本養老保險制度的決定) issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (國務院關於建立城鎮職工基本醫療保險制度的決定) promulgated on December 14, 1998, The Unemployment Insurance Measures (失業保險條例) promulgated on January 22, 1999, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) implemented on January 22, 1999 and the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法) implemented on July 1, 2011, enterprises are obliged to provide their employees in mainland China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (住房公積金管理條例) which was promulgated by the State Council in 1999 and amended in 2002, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS RELATING TO TAX

Enterprise Income Tax

On March 16, 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (中華人民共和國企業所得税法) which was amended on February 24, 2017, and on December 6, 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (中華人民共和國企業所得税法實施條例) (collectively, the "**EIT Law**"). The EIT Law came into effect on January 1, 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in mainland China, or if they have formed permanent establishment institutions or premises in mainland China but there is no actual relationship between the relevant income derived in mainland China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside mainland China.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as Chinese Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外注冊中資控股企業依據實際管理機構標準實施居民企業認定有關問題的通知) promulgated by the State Administration of Taxation ("**SAT**") on April 22, 2009 and amended on January 29, 2014 sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups is located within mainland China.

The EIT Law provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises," and gains derived by such investors, which (a) do not have an establishment or place of business in mainland China or (b) have an establishment or place of business in mainland China, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources

within mainland China. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our foreign shareholders reside. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排) (the "**Double Tax Avoidance Arrangement**"), and other applicable mainland Chinese laws, if a Hong Kong resident enterprise is determined by the competent tax authority in mainland China to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a mainland China resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (關於執行税收協定股息條款有關問題的通知) (the "**Notice No. 81**") issued on February 20, 2009 by the SAT, if the relevant Chinese tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such Chinese tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties (關於如何理解和認定税收協定中受益所有人的通知), which was issued on October 27, 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties (關於認定税收協定中"受益所有人"的公告), which was issued on June 29, 2012 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (高新技術企業認定管理辦法), effected on January 1, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years.

Value-added Tax and Business Tax

The Provisional Regulations of the People's Republic of China on Value-added Tax (中華人民共和國增值税暫行條例) were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 5, 2008 and came into effect on January 1, 2009 and subsequently amended on February 6, 2016 and November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (Revised in 2011) (中華人民共和國增值税暫行條例實施細則(2011年修訂)) were promulgated by the Ministry of Finance and the SAT on December 18, 2008 which were subsequently amended on October 28, 2011 and came into effect on November 1, 2011 (collectively, the "**VAT Law**"). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of mainland China must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%. On April 4, 2018, the Ministry of Finance and the SAT promulgated the Notice on Adjusting Value-added Tax Rates (關於調整增增值税税率的通知), which reduced the tax rates for sale, import, and export of goods, as well as the deduction rate for taxpayer's purchase of agricultural products.

On March 23, 2016, the Ministry of Finance and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform (關於全面推開營業税改徵增值税試點的通

知) (the "**Circular 36**") which confirms that business tax would be completely replaced by VAT from May 1, 2016.

Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for the Exemption of Value-added Tax on Cross-border Taxable Activities under the Collection of Value-added Tax in Lieu of Business Tax (for Trial Implementation) (國家税務總局關於發布<營業税改征增值税跨境應税行為增值税免税管理辦法(試行)>的公告), which was promulgated on May 6, 2016 by the SAT, provides that if a domestic enterprise provides cross-border taxable services such as technology transfer, technical consulting, software service etc., the above mentioned cross-border taxable services shall be exempt from the value-added tax.

Dividend Withholding Tax

The EIT Law provides that since January 1, 2008, an income tax rate of 10% will normally be applicable to dividends declared to foreign resident investors who do not have an establishment or place of business in mainland China, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within mainland China.

Pursuant to the Double Tax Avoidance Arrangement, and other applicable Chinese laws, if a Hong Kong resident enterprise is determined by the competent mainland China tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a mainland China resident enterprise may be reduced to 5%. However, based on the Notice No. 81, if the relevant mainland China tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such mainland China tax authorities may adjust the preferential tax treatment; and based on the Notice on How to Interpret and Recognize the "Beneficial Owner" in Tax Treaties (關於如何理解和認定税收協定中"受益所有人"的通知), issued on October 27, 2009 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus are not entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

HONG KONG LAWS AND REGULATIONS RELATING TO OUR BUSINESS

Telecommunications Ordinance

We import and sell our smartphones and other consumer electronics with radiocommunication functions in Hong Kong, which is regulated by the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) (the "**TO**"). Under the TO, a radio dealers license (unrestricted) is required for dealing in the course of trade or business (i) in apparatus or material for radiocommunications or in any component part of any such apparatus, or (ii) in apparatus of any kind that generates and emits radio waves, whether or not the apparatus is intended, or capable of being used, for radiocommunications. A radio dealers license (unrestricted) is also required for the import into Hong Kong or export therefrom any radiocommunications transmitting apparatus unless otherwise permitted by the Communication Authority. Under the Telecommunications (Telecommunications Apparatus) (exemption from Licensing) Order (Chapter 106Z of the Laws of Hong Kong), a radio dealers license (unrestricted) is not required for importing or exporting telecommunications apparatus meeting presecribed specifications.

A person without the required license is liable, on summary conviction, for a fine of HK$50,000 and imprisonment for two years. A radio dealers license (unrestricted) is generally valid for 12 months, and is renewable on payment of a prescribed fee. Our wholly-owned subsidiary, Xiaomi H.K. Limited, currently has a radio dealers license (unrestricted) issued on January 4, 2013.

Sale of Goods Ordinance

Contracts for the sale of goods are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the "**SGO**"). The SGO provides that there are implied obligations owed by the seller towards the buyer, including: (i) where the goods are sold in the course of business and the buyer, expressly or by implication, makes known to the seller any particular purpose for which the goods are being bought, the goods supplied shall be reasonably fit for the purposes made known; (ii) goods must correspond to any description provided; and (iii) the goods meet the standard that a reasonable person would regard as satisfactory.

Consumer Goods Safety Ordinance

The Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) (the "**CGSO**") imposes a duty on manufacturers to ensure that the consumer goods they supply are reasonably safe. Under the CGSO, all products manufactured for consumption in Hong Kong must satisfy the general safety requirements. Criminal sanctions are imposed for violations of CGSO unless a due diligence defense can be successfully established. Any person who commits an offence shall be liable, on first conviction for a fine of HK$100,000 and imprisonment for one year, and on subsequent conviction for a fine of HK$500,000 and two years of imprisonment. A continuing offense will result in an additional fine of HK$1,000 per day during the relevant period. The Commissioner of Customs and Excise has the power to serve a recall requiring the immediate withdrawal of a mobile phone or consumer electronic product which is believed to be of significant risk and may cause a serious injury.

Trade Descriptions Ordinance

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) (the "**TDO**") regulates trade descriptions and statements made in respect of mobile phones and consumer electronic products offered in the course of trade. The TDO provides that no person shall, in the course of trade or business, apply a false trade description or trade mark to any good. Further, selling, importing or exporting a good with a false description or trade mark is prohibited. When dealing with a consumer, a trader must not engage in conduct that: (i) is a misleading omission; (ii) is aggressive; (iii) constitutes bait advertising; (iv) constitutes a bait and switch; or (v) constitutes wrongly accepting payment. A person who commits an offence under the TDO faces a potential fine of up to HK$500,000 and imprisonment for five years.

The Inland Revenue Ordinance

Secion 20(2) of the Inland Revenue Ordinance (Chapte 112 of the Laws of Hong Kong) (the "**IRO**") provides that where a resident person conducts transactions with a "closely connected" non-resident person in such a way that if the profits arising from Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or he connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-residence person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person. Section 2-A of the IRO gives the Inland Revenue Department (the "**IRD**") wide powers to collect tax due from non-residents.

The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

INDIA LAWS AND REGUALTIONS RELATING TO OUR BUSINESS

Industry Specific Laws

*Electronics and Information Technology Goods (Requirements for Compulsory Registration) Order, 2012, as amended (the "**Compulsory Registration Order**")*

Under the Compulsory Registration Order, no person is permitted to, manufacture or store for sale, import, sell or distribute goods (as defined in the Compulsory Registration Order) which do not (i) conform to the Indian Standards ("**IS**") specified under the Compulsory Registration Order, and (ii) bear the "standard mark" as notified from time to time by the Bureau of Indian Standards, Ministry of Consumer Affairs, Food and Public Distribution, Government of India ("**BIS**") after obtaining a unique registration number from the BIS. The manufacturer is eligible to apply and obtain the unique registration number from the BIS. The Compulsory Registration Order also states that sub-standard or defective goods that do not conform to the relevant IS are required to be deformed beyond use by the manufacturer and disposed of as scrap. To ensure compliance with the Compulsory Registration Order, the relevant authority is authorized to call for information and samples, inspect books or any other documents or goods and enter and search any premises and seize goods that are found to be in contravention of the Compulsory Registration Order.

In relation to the "Xiaomi" goods covered by the Compulsory Registration Order and sold in India, the obligation to obtain the unique registration number from the BIS is that of the manufacturer of such goods.

*International Mobile Equipment Identity ("**IMEI**") and Specific Absorption Rate ("**SAR**")*

GSM mobile handset manufacturers or brand owners are required to obtain an International Mobile Equipment Identity (IMEI) number for their mobile equipment model and for such purpose, they are required to register with the GSM Association (GSMA). A registered manufacturer or brand owner that intends to import GSM mobile handsets into India is required to apply to the GSMA to obtain an IMEI certificate in relation to the mobile handset IMEI lot to be imported into India. Any import into India of GSM mobile handsets without IMEI number or CDMA mobile handsets without electronic serial number or mobile equipment identifier is prohibited. The IMEI certificate is required to be submitted by the brand owner or the importer of the mobile devices to the customs authorities in India, along with other import documents and the certificate is then verified by the customs authorities to ensure that, *inter alia*, the IMEI numbers are genuine, the importer details are provided and the IMEI belong to the same make and model that is being imported. The customs authorities may also conduct random inspections of the consignment to verify the IMEI numbers with the list submitted by the importer. As neither of the Indian Subsidiaries manufactures mobile devices nor is the brand owner of the mobile devices it deals in, it is not required to register with the GSMA.

Further, only mobile handsets that comply with the Specific Absorption Rate (SAR) value prescribed by the Department of Telecommunications, Ministry of Communications, Government of India ("**DoT**") are permitted to be manufactured or imported into the domestic market in India, subject to certain terms and conditions, including that the SAR value must be displayed on the mobile handsets

and made available to the consumer at the point of sale, and manufacturers of mobile handsets (including for mobile handsets that are imported into India) are required to provide a self-declaration to the Telecom Engineering Center in India, with a copy to the DoT, in relation to the SAR value based on a certification from internationally accredited labs or labs accredited by the Telecom Engineering Center in India.

Licenses by the Wireless Planning and Coordination Wing of the DoT

Under the Indian Wireless Telegraphy Act, 1933, as amended, no person is entitled to possess wireless telegraphy apparatus, i.e., apparatus, appliance, instrument or material used or capable of use in wireless communication, without obtaining a valid license from the authority constituted under the Indian Telegraph Act, 1885, as amended. The Wireless Planning and Coordination Wing of the DoT (the "**WPC Wing**") grants licenses and approvals for operating wireless equipment, including equipment type approval to establish, maintain, work, possess or deal in wireless equipment in certain frequency bands on a non-interference non-protection and shared (non-exclusive) basis and licenses to import wireless transmitting and/or transreceiving apparatus into India.

*Energy Conservation Act, 2001, as amended (the "**Energy Conservation Act**") and the Bureau of Energy Efficiency (Particulars and Manner of their Display on Labels of Color Televisions) Regulations, 2016 (the "**BEE Regulations**")*

Pursuant to the authority conferred under the Energy Conservation Act, the Bureau of Energy Efficiency, Ministry of Power, Government of India ("**BEE**") has issued the BEE Regulations to regulate the particulars that are required to be displayed on the labels for color televisions and the manner of affixing such labels. Manufacturers and importers of color televisions are required to apply to the BEE for permission to affix a label on such color televisions, which contain the specified particulars, including the star level of the appliance, i.e., the grade of energy efficiency based on the energy consumption standard notified by the Central Government to denote the annual energy performance of color televisions. Such permission is valid for a specified period of time and is subject to certain other conditions, including requirement to furnish quarterly reports containing details of production of labeled equipment and accrued labeling fee. The Energy Conservation Act imposes a penalty of up to ₹1,000,000 for failure to comply with directions in relation to display of labels and, in the event of a continuing failure, an additional penalty of up to ₹10,000 may be imposed for each day during which such failure continues.

"Other Service Provider" Registration

Any company providing services, such as tele-banking, tele-trading, e-commerce and call centers by using telecom facilities provided by authorized telecom service providers is required to obtain a registration from the DoT as an "other service provider" ("**OSP**") and comply with the terms and conditions issued by the DoT from time to time. The registration is location specific. An applicant may apply for a domestic OSP registration to provide services within India and/or an international OSP registration to provide services outside India. An OSP registration is valid for a period of 20 years from the date of issuance, unless otherwise provided in the registration, and may be renewed for a period of 10 years at a time. The DoT is entitled to conduct inquiries, either *suo moto* or pursuant to a complaint, to determine whether there has been a breach of any of the terms and conditions of the OSP registration and the DoT may cancel the OSP registration in case of such breach.

Foreign Investment Regulations

Under the consolidated FDI Policy (effective from August 28, 2017), as amended, issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India ("**FDI Policy**") and the provisions of the Foreign Exchange Management Act, 1999 along with the rules, regulations and notifications made by the Reserve Bank of India thereunder, each as amended ("**FEMA**"), 100% foreign investment through the automatic route, i.e., without requiring prior governmental approval, is permitted in companies engaged in wholesale trading, subject to compliance with certain prescribed guidelines and reporting requirements. Further, subject to certain conditions, 100% foreign investment is permitted in companies engaged in business to business e-commerce and single brand product retail trading. OSPs are also allowed 100% foreign investment under the automatic route. Any contravention of the FEMA may result in a penalty of up to three times the sum involved in such contravention where such amount is quantifiable or up to ₹200,000 where the amount is not quantifiable. Where the contravention is a continuing one, a further penalty of up to ₹5,000 for each day may be levied for the period during which the contravention continues.

Importer-Exporter Code (IEC)

The Foreign Trade (Development and Regulation) Act, 1992, as amended (the "**Foreign Trade Act**") provides for the development and regulation of foreign trade. No person is permitted to make any import or export except under an IEC number granted by the Office of the Joint Director General of Foreign Trade, Ministry of Commerce and Industry, Government of India. Under the Foreign Trade Act, a contravention of any law relating to central excise, customs, foreign exchange or commission of any other economic offense under any other laws notified by the Government of India is ground for suspension or cancelation of the IEC number. The Government of India may also, after conducting an enquiry, impose quantitative restrictions on the import of goods if it is satisfied that such goods are being imported into India in such increased quantities and under such conditions as to cause or threaten to cause serious injury to domestic industry.

Intellectual Property Laws

*The Trade Marks Act, 1999, as amended (the "**Trade Marks Act**")*

The Trade Marks Act governs the statutory protection of trade marks and provides for the prevention of the use of fraudulent marks in India. The registration of a trade mark, if valid, gives to the registered proprietor of the trade mark the exclusive rights to the use of the trade mark in relation to the goods or services in respect of which the trade mark is registered and to provide relief in case of infringement of such trade mark. Once granted, trade mark registration is valid for ten years, unless canceled. Application for the registration of trade marks has to be made to the Controller-General of Patents, Designs and Trade Marks who is the Registrar of Trade Marks for the purposes of the Trade Marks Act. The Trade Marks Act provides for penalties for infringement and for falsifying and falsely applying trade marks and using them to cause confusion among the public.

*Copyright Act, 1957, as amended (the "**Copyright Act**")*

The Copyright Act governs copyright protection in India and provides for, *inter alia*, registration, assignment and licensing of copyrights. Under the Copyright Act, subject to certain exceptions, a copyright shall subsist in original literary, dramatic, musical or artistic works, cinematograph films, and sound recordings. While copyright registration is not mandatory under the

Copyright Act for acquiring or enforcing a copyright, such registration creates a presumption favoring ownership of the copyright by the registered owner. Copyright protection lasts for 60 years from the beginning of the calendar year following the year of the death of the author or the publication of the work, as the case may be. In the event of infringement of a copyright, the owner of the copyright is entitled to both civil remedies, including damages, accounts and injunction and delivery of infringing copies to the copyright owner, and criminal remedies, including imprisonment and imposition of fines and seizure of infringing copies.

*The Patents Act, 1970, as amended (the "**Patents Act**")*

The Patents Act governs the patent regime in India. Under the Patents Act, both a product and a process involving an inventive step and being capable of industrial application are eligible to be patented. Patents obtained in India are valid for a period of 20 years from the date of filing the patent application. Import of patented products from a person who is duly authorized under the law to produce and sell or distribute the product will not be considered infringement. A patent may be revoked pursuant to a petition by any person interested on certain grounds, including that the invention so far as claimed in any claim of the complete specification is obvious or does not involve any inventive step, taking into consideration what was publicly known or publicly used in India or published in India or elsewhere before the priority date of the claim.

Environmental Legislations

The Environment Protection Act, 1986, as amended (the "**EPA**"), has been enacted with the objective of protection and improvement of the environment. Under the EPA, the Central Government has been given the power to take all such measures as may be required for the purpose of protecting and improving the quality of the environment and preventing environmental pollution, including framing of rules to regulate such matters. In the event of contravention by any person of the provisions of the EPA or the rules framed thereunder, such person may be punishable with imprisonment up to five years and/or fine up to ₹100,000, and additional fine up to ₹5,000 for each day during which such contravention continues. If a contravention continues for more than one year, the offender will be punishable with imprisonment up to seven years.

*E-Waste (Management) Rules, 2016, as amended (the "**E-Waste Rules**")*

The E-Waste Rules regulate all manufacturers, producers, consumers, bulk consumers, collection centers, dealers, e-retailers, refurbishers, dismantlers and recyclers involved in the manufacture, sale, transfer, purchase, collection, storage and processing of e-waste or electrical and electronic equipment covered under the E-Waste Rules, including their components, consumables, parts and spares. Under the E-waste Rules, any producer (including any person who offers to sell under its own brand any assembled electrical and electronic equipment and their components, consumables, parts or spares produced by other manufacturers or suppliers, or any person who offers to sell imported electrical and electronic equipment and their components, consumables, parts or spares) of certain electrical and electronic equipment is required to make an application for an Extended Producer Responsibility Authorization ("**EPR Authorization**") setting out their plans for channelisation of e-waste to ensure environmentally sound management of such waste. A manufacturer, producer, importer, transporter, refurbisher, dismantler and recycler will be liable for all damages caused to the environment or to a third party due to improper handling and management of e-waste and may also be required to pay financial penalties for violation of the E-Waste Rules as imposed by the relevant state pollution control board with the prior approval of the Central Pollution Control Board.

REGULATIONS

Competition Act

The Competition Act, 2002, as amended (the "**Competition Act**"), regulates practices that could have an appreciable adverse effect on competition in India. Under the Competition Act, any arrangement, understanding or action in concert, whether formal or informal, in relation to production, supply, distribution, storage, acquisition or control of goods or provision of services which causes or is likely to cause an appreciable adverse effect on competition in India is void. Any agreement among competitors which directly or indirectly determines purchase or sale prices, limits or controls production, supply, markets, technical development, investment or provision of services, creates market sharing by way of geographical area, type of goods or services or number of customers in the market or involves bid rigging is presumed to have an appreciable adverse effect on competition in India and is void. Any agreement among persons at different stages of the production chain in different markets, including tie-in arrangements, exclusive supply and distribution agreements, and agreements which result in refusal to deal or resale price maintenance, may be void if such agreements cause an appreciable adverse effect on competition in India.

The Competition Act also prohibits abuse by enterprises of their dominant position. Parties that contravene the provisions of the Competition Act may be directed by the Competition Commission of India to discontinue their anti-competitive agreements or abuse of dominant position, as the case may be, and may also be subject to penalties. Further, the Competition Commission of India has been granted extraterritorial powers and can investigate any agreements or abusive conduct occurring outside India if such agreement or conduct has an appreciable adverse effect on competition in India.

Acquisitions, mergers and amalgamations which exceed certain revenue and asset thresholds require prior approval by the Competition Commission of India. Any such acquisitions, mergers or amalgamations which cause or are likely to cause an appreciable adverse effect on competition in India are prohibited and void.

Consumer Protection

The Consumer Protection Act, 1986, as amended (the "**COPRA**"), provides for the protection of the interests of consumers and the settlement of consumer disputes. The COPRA sets out a mechanism for consumers to file complaints against traders or service providers in cases of defects in goods, deficiencies in services, unfair or restrictive trade practices and excessive pricing. The terms "defect" and "deficiency" are broadly defined and cover any kind of fault, imperfection or shortcoming in the quality, quantity, potency, purity or standard. A three-tier consumer grievance redressal mechanism has been implemented pursuant to the COPRA at the national, state and district levels. If the goods are found to be defective, the trader can be directed to *inter alia* remove the defect from the goods in question, replace the goods with new goods that are free from any defect, return to the complainant the charges paid by the complainant and pay compensation, including punitive damages, for any loss or injury suffered by the consumer due to negligence of such trader. Non-compliance with the orders of these authorities may attract criminal penalties in the form of fines of up to ₹10,000 and/or imprisonment which may extend to three years.

Enforcement of Civil Liabilities

The Code of Civil Procedure, 1908, as amended (the "**CPC**"), provides for the recognition and enforcement of foreign judgments on a statutory basis.

The CPC provides that foreign judgments shall be conclusive regarding any matter directly adjudicated upon, except (i) where the judgment has not been pronounced by a court of competent jurisdiction; (ii) where the judgment has not been given on the merits of the case; (iii) where it appears on the face of the proceedings that the judgment is founded on an incorrect view of international law or a refusal to recognize the law of India in cases to which such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where the judgment has been obtained by fraud; or (vi) where the judgment sustains a claim founded on a breach of any law in force in India.

Under the CPC, a court in India shall, upon the production of any document purporting to be a certified copy of a foreign judgment, presume that the judgment was pronounced by a court of competent jurisdiction, unless the contrary appears on record. However, under the CPC, such a presumption may be displaced by proving that the court did not have jurisdiction.

India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. The CPC provides that where a foreign judgment has been rendered by a superior court, within the meaning of that section, in any country or territory outside India which the Government of India has formally declared to be in a reciprocating territory, it may be enforced in India as if the judgment had been rendered by the relevant court in India. However, this is applicable only to monetary decrees or judgments which are not of the same nature as amounts payable in respect of taxes, other charges of a like nature or of a fine or other penalties and does not apply to arbitration awards.

Hong Kong, United Kingdom and Northern Ireland, among other jurisdictions, have been declared by the Government of India to be reciprocating territories for the purposes of the CPC, but the United States has not been so declared. A judgment of a court in a jurisdiction which is not a reciprocating territory may be enforced only by a fresh suit upon the judgment and not by proceedings in execution. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with public policy or Indian practice. Further, any judgment or award in a foreign currency would be converted into Indian Rupees on the date of such judgment or award and not on the date of payment which could also increase risks relating to foreign exchange. A party seeking to enforce a foreign judgment in India is required to obtain approval from the Reserve Bank of India to remit outside India any amount recovered. Any such amount may be subject to income tax in accordance with applicable laws.

OVERVIEW

We were established in early 2010. We were established by our Founder, Lei Jun and our Co-founders, who shared the belief that innovative, high quality, well designed technology products and services should be accessible to the world's population. Lei Jun has nearly thirty years of experience as a computer engineer and renowned angel investor in the technology industry, and our Co-founders are all engineers or designers with decades of hardware and software development experience. Our Founder and Co-founders self-funded the establishment of our Group.

BUSINESS MILESTONES

The following is a summary of our key business development milestones since our inception in 2010:

Year	Event
2012	Annual sales exceeded US$1 billion (two years after inception)
2014	Number one smartphone company in mainland China by unit shipments, according to IDC (three years after launching our first smartphone)
2014	Annual sales exceeded US$10 billion, four years after inception, which is the fastest in history, according to iResearch
2015	MIUI MAUs exceeded 100 million
2017	The world's largest consumer IoT platform in terms of the number of connected devices (excluding smartphones and laptops), according to iResearch
2017	Number one smartphone company in India by unit shipments in the fourth quarter of 2017, according to IDC (three and a half years after officially entering the India market)
2017	Fastest growing internet company and second fastest growing company globally, as measured by organic revenue growth compared to publicly-listed profitable companies with revenue of over RMB100 billion in 2017, according to iResearch

MAJOR SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES

The principal business activities and date of establishment and commencement of business of each member of our Group that made a material contribution to our results of operations during the Track Record Period are shown below:

Name of entity	Principal business activities	Date of establishment and commencement of business
Xiaomi Inc.	E-commerce business	March 3, 2010
Xiaomi HK	Wholesale and retail of smartphones and ecosystem partners' products	April 7, 2010
Xiaomi Communications	Development and sales of smartphones, sales of ecosystem partners' products and provision of customer services	August 25, 2010
Xiaomi Mobile Software	Software and hardware development and provision of software related services	May 8, 2012
Zhuhai Communications	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials	January 25, 2013

Name of entity	Principal business activities	Date of establishment and commencement of business
Xiaomi India Technology	Sales of smartphones and ecosystem partners' products	October 7, 2014
Chongqing Microcredit	Internet finance and consumer loan services	June 12, 2015

MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on January 5, 2010 with an authorized share capital of US$50,000 divided into 50,000 ordinary shares with par value of US$1.00 each.

Following our establishment, we effected a capital reorganization between August 17, 2010 and December 21, 2010, following which the ordinary shares in our authorized share capital were re-classified and re-designated into 162,500,000 Class A ordinary shares and 600,000,000 Class B ordinary shares, each with par value of US$0.0001.

On August 17, 2010 and December 20, 2010, we issued a total of 162,500,000 Class A ordinary shares and a total of 57,500,000 Class B ordinary shares, with par value of US$0.0001 each, to our Founder and Co-founders.

Between September 28, 2010 and June 22, 2012, we conducted seven rounds of pre-**[REDACTED]** financing resulting in the aggregate issuance of 102,500,000 Series A Preferred Shares, 70,831,503 Series B Preferred Shares, 43,023,587 Series C Preferred Shares and 13,189,777 Series D Preferred Shares (and subsequently adjusted), further details of which are set out in the section headed "—Pre-**[REDACTED]** Investments" in this section.

On March 14, 2014, we conducted a share split pursuant to which each share in our then issued and unissued share capital was split into four shares of the corresponding class with par value of US$0.000025 each, following which our share capital was divided into (i) 692,215,076 Class A ordinary shares with par value US$0.000025 each and 2,828,385,900 Class B ordinary shares with par value US$0.000025 each, (ii) 396,000,000 Series A Preferred Shares, (iii) 221,498,524 Series B-1 Preferred Shares, (iv) 33,249,592 Series B-2 Preferred Shares, (v) 172,094,348 Series C Preferred Shares, (vi) 102,127,680 Series D Preferred Shares, (vii) 21,277,676 Series E-1 Preferred Shares, and (viii) 72,351,828 Series E-2 Preferred Shares.

Between August 6, 2013 and August 24, 2017, we conducted two rounds of pre-**[REDACTED]** financing resulting in the aggregate issuance of 72,309,188 Series E Preferred Shares and 57,163,141 Series F Preferred Shares (and subsequently adjusted), further details of which are set out in the section headed "—Pre-**[REDACTED]** Investments."

On April 2, 2018, we issued 63,959,619 Class B ordinary shares with par value US$0.000025 each (or **[REDACTED]** Class B Shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity controlled by Lei Jun, to reward Lei Jun for his contributions to our Company.

For further information on the rights attached to our Class A Shares and Class B Shares, please see the section headed "Share Capital."

Subsequent to each of the Pre-**[REDACTED]** financing rounds, we effected further changes to our issued share capital which are not material to the Group. For further information about the shareholding structure of the Company immediately prior to the **[REDACTED]**, please refer to the section headed "—Capitalization of the Company" .

SHARE SUBDIVISION

On [●], 2018, our Shareholders resolved, among other things that, subject to the **[REDACTED]** becoming unconditional, all the issued and unissued Preferred Shares will be reclassified and re-designated as class B ordinary shares of US$0.000025 par value each of the Company, following which each issued and unissued class A ordinary share of US$0.000025 par value each of the Company and class B ordinary share of US$0.000025 par value each of the Company will be subdivided into **[REDACTED]** Class A Shares of US$**[REDACTED]** par value each and **[REDACTED]** Class B Shares of US$**[REDACTED]** par value each, respectively, such that the authorized share capital of the Company shall be US$**[REDACTED]** divided into (i) **[REDACTED]** Class A Shares of US$**[REDACTED]** par value each and (ii) **[REDACTED]** Class B Shares of US$**[REDACTED]** par value each, respectively, and the issued share capital (including those Preferred Shares to be reclassified and re-designated as class B ordinary shares of US$0.000025 par value each of the Company on the **[REDACTED]**) shall be US$**[REDACTED]** divided into (i) **[REDACTED]** Class A Shares of US$**[REDACTED]** par value each and (ii) **[REDACTED]** Class B Shares of US$**[REDACTED]** par value each, respectively.

MAJOR ACQUISITIONS, DISPOSALS AND MERGERS

We have not conducted any acquisitions, disposals or mergers since our inception that we consider to be material to us. For certain minority investments that we have made, none of which we consider to be material, please see "Financial Information—Discussion of Certain Key Balance Sheet Items."

RESTRUCTURING OF OUR FINANCE RELATED BUSINESS

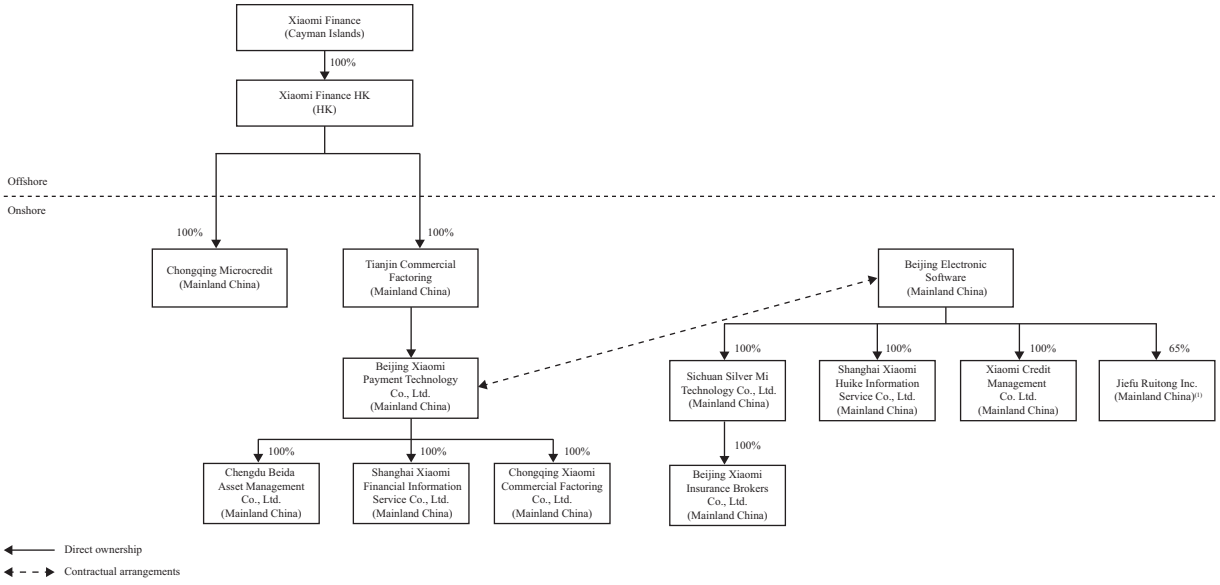
Background to the finance related business and the XMF Restructuring

Xiaomi Finance is the financial services arm of the Group and is in an early stage of development. Xiaomi Finance operates start-up businesses in the financial technology industry, including in particular, artificial intelligence-enabled online financial services, mobile applications offering technology-enabled banking, wealth management, loan and insurance products and consumer payment solutions, as well as establishing a proprietary credit information database through continuously analyzing consumer big data. Xiaomi Finance's business is not one of our core businesses, and involves different business models, value chains, ecosystems, risk profiles and growth strategies from our core business.

Xiaomi Finance's business is primarily conducted in mainland China through, among others, Chongqing Microcredit and our Consolidated Affiliated Entity, Beijing Electronic Software. Assuming the XMF Restructuring had been completed as at December 31, 2017, for the year ended December 31, 2017, the revenue and net loss before tax of Xiaomi Finance would have accounted for approximately 0.7% and less than 0.2% of our Group, respectively, and as at December 31, 2017, the total assets of Xiaomi Finance would have accounted for approximately 14.1% of our Group.

With a view to streamlining the various entities operating the finance related business and ultimately separating Xiaomi Finance from the Group such that Xiaomi Finance would in the future no

longer be a consolidated subsidiary of the Group, we have undertaken the XMF Restructuring, as described below. Upon completion of the XMF Restructuring, our finance related business will be held under a single wholly-owned subsidiary of our Company, Xiaomi Finance. The following diagram illustrates the corporate structure of the Xiaomi Finance Group after completion of the XMF Restructuring:



Note:

(1) As of the Latest Practicable Date, Jiefu Ruitong Inc. (捷付睿通股份有限公司) ("**Jiefu Ruitong**") was held by Xiaomi Inc. (a company outside of the Xiaomi Finance Group) as to 65% and Shengyin Herui Technology Co., Ltd. (盛銀和睿科技有限公司) and Wu Jun, both of whom are Independent Third Parties, as to 32% and 3%, respectively. As part of the XMF Restructuring, the equity interest in Jiefu Ruitong held by Xiaomi Inc. is in the process of being transferred to Beijing Electronic Software, subject to the approvals from the relevant regulatory authorities in mainland China.

In connection with the XMF Restructuring, the XM Group advanced the XMF Restructuring Loans amounting to approximately US$830 million and RMB299 million, respectively, as of the Latest Practicable Date to the Xiaomi Finance Group. Such loans are interest-free and one-off and were made on the basis that Xiaomi Finance was at the time, and as of the Latest Practicable Date remained, a wholly-owned subsidiary of our Company.

XMF Share Option Schemes

In light of the novelty and competitiveness of the industry in which Xiaomi Finance operates, we believe that the "employee-owned and managed" development model would be conducive to the recruitment and retention of highly sought-after talent in the financial technology industry, and in turn the long-term growth of Xiaomi Finance. It is therefore our intention for the management and employees of Xiaomi Finance to hold a significant stake in Xiaomi Finance going forward. To this end, we adopted the XMF Share Option Schemes and intend to grant options to suitable management and employees after the **[REDACTED]**. For further information about the XMF Share Option Schemes, please see sections headed "Statutory and General Information—Share Option Schemes—The XMF Share Option Scheme I" and "Statutory and General Information—Share Option Schemes—The XMF Share Option Scheme II" in Appendix IV.

The XMF Share Option Scheme II is not in full compliance with the requirements under Chapter 17 of the Listing Rules. For the purpose of granting options under the XMF Share Option

Scheme II after the **[REDACTED]**, we have applied for [, and the Stock Exchange has granted], certain waivers described in the section headed "Waivers from Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Waivers in Relation to the XMF Share Option Scheme II."

The maximum number of shares underlying the options to be granted under the XMF Share Option Schemes is 60% of the total issued share capital of Xiaomi Finance (on a fully-diluted basis assuming options representing the maximum number of shares of Xiaomi Finance under the XMF Share Option Schemes have been granted and exercised). The grant of options under the XMF Share Option Schemes will result in share-based compensation to be recorded in our Group's consolidated income statement, the impact of which will depend on the valuation of such options taking into account, among other things, the exercise price, the vesting period, volatility of the underlying shares, the company value of Xiaomi Finance and the valuation model adopted by the valuer. The exercise of options under the XMF Share Option Schemes is at the discretion of the grantees subject to the terms and conditions of the grant. The exercise of the options under the XMF Share Option Schemes over time will effectively dilute our Company's interest in Xiaomi Finance. We expect that, as a result of such dilution, Xiaomi Finance will cease to be a subsidiary of our Company and Xiaomi Finance's results of operations will no longer be consolidated into those of our Group. Following such de-consolidation, we will only account for our interests in Xiaomi Finance under the equity method of accounting, under which neither Xiaomi Finance's revenue nor any other individual line item of Xiaomi Finance's consolidated financial statements will be recorded in the corresponding line items of our Group's consolidated financial statements. For further information relating to such dilution, please see section headed "Risk Factors—Exercise of options granted or to be granted under the XMF Share Option Schemes may significantly dilute our interest in Xiaomi Finance over time to the extent that the results of operations of Xiaomi Finance will no longer be consolidated into those of our Group."

One of the conditions to the waiver [granted by the Stock Exchange] in relation to the XMF Share Option Scheme II is that we will treat Xiaomi Finance as a "connected subsidiary" (as defined in Rule 14A.16 of the Listing Rules) after the **[REDACTED]** and will comply with the relevant connected transactions requirements under Chapter 14A of the Listing Rules for as long as we account for Xiaomi Finance as a subsidiary, save for the XMF Restructuring Loans described above. For our continuing connected transactions with the Xiaomi Finance Group that we expect to subsist after the **[REDACTED]**, see "Connected Transactions."

CAPITALIZATION OF THE COMPANY

The following table sets out our shareholding structure on the date of this **[REDACTED]** and immediately prior to the Share Subdivision and the completion of the **[REDACTED]**, assuming the **[REDACTED]** is not exercised and no options granted pursuant to the Pre-**[REDACTED]** ESOP are exercised.

Shareholders	Class A ordinary shares of US$0.000025 each	Class B ordinary shares of US$0.000025 each	Series A Preferred Shares	Series B-1 Preferred Shares	Series B-2 Preferred Shares	Series C Preferred Shares	Series D Preferred Shares	Series E-1 Preferred Shares	Series E-2 Preferred Shares	Series F-1 Preferred Shares	Series F-2 Preferred Shares	Aggregate total number of shares of par value of US$0.000025 each as at the date of this [REDACTED][1]	Aggregate ownership percentage as at the date of this [REDACTED][1]	Aggregate ownership percentage upon completion of the [REDACTED][2]
Lin Bin[3]	240,000,000	9,123,361	30,000,000	—	—	—	—	—	—	—	—	279,123,361	13.3286%	**[REDACTED]**%
Smart Mobile Holdings Limited[4]	429,518,772	72,655,923	125,200,000	24,532,552	—	—	—	—	—	—	—	651,907,247	31.1296%	**[REDACTED]**%
Smart Player Limited[4]	—	5,922,163	—	—	—	—	—	—	—	—	—	5,922,163	0.2828%	**[REDACTED]**%
Hans Tung	—	48,852	—	—	—	—	—	—	—	—	—	48,852	0.0023%	**[REDACTED]**%
Long Great Holdings Limited	—	2,132,032	—	—	—	—	—	—	—	—	—	2,132,032	0.1018%	**[REDACTED]**%
Duke King Holdings Limited	—	2,529,559	—	—	—	—	—	—	—	—	—	2,529,559	0.1208%	**[REDACTED]**%
Wisdom Bloom International Limited[5]	—	13,870,890	9,477,045	—	—	—	—	—	—	—	—	23,347,935	1.1149%	**[REDACTED]**%
JONGMI Limited	—	800,000	—	—	—	—	—	—	—	—	—	800,000	0.0382%	**[REDACTED]**%
Mirodesign Limited	—	1,600,000	—	—	—	—	—	—	—	—	—	1,600,000	0.0764%	**[REDACTED]**%
Wali International Holdings Ltd	—	1,571,388	—	—	—	—	—	—	—	—	—	1,571,388	0.0750%	**[REDACTED]**%
Matrix Partners China I, L.P.	—	1,326,180	—	—	—	—	—	—	—	—	—	1,326,180	0.0633%	**[REDACTED]**%
Matrix Partners China I-A, L.P.	—	134,372	—	—	—	—	—	—	—	—	—	134,372	0.0064%	**[REDACTED]**%
Lofty Power International Limited[6]	—	22,796,582	9,650,960	—	—	—	—	—	—	—	—	32,447,542	1.5494%	**[REDACTED]**%
Zhou Guangping[7]	—	28,404,168	—	58,386	1,518,912	—	—	—	—	—	—	29,981,466	1.4317%	**[REDACTED]**%
Colorful Mi Limited	—	12,253,726	8,510,417	13,764,000	3,552,416	—	1,709,788	—	—	—	—	39,790,347	1.9001%	**[REDACTED]**%
Mini Stone Limited[8]	—	57,796,582	9,650,960	—	—	—	—	—	—	—	—	67,447,542	3.2207%	**[REDACTED]**%
Wong Kong Kat	—	67,747,730	50,960	—	—	—	—	—	—	—	—	67,798,690	3.2375%	**[REDACTED]**%
Natural Hero Limited[9]	—	67,747,730	50,960	—	—	—	—	—	—	—	—	67,798,690	3.2375%	**[REDACTED]**%
Gifted Jade Limited[10]		337,700	—	—	—	—	—	—	—	—	—	337,700	0.0161%	**[REDACTED]**%
Powerful Era Limited	—	1,000,000	—	—	—	—	—	—	—	—	—	1,000,000	0.0478%	**[REDACTED]**%
Bright Inspiration Holdings Limited	—	500,000	—	—	—	—	—	—	—	—	—	500,000	0.0239%	**[REDACTED]**%
Qiming Managing Directors Fund II, L.P.[11]	—	—	—	973,232	—	126,104	—	—	—	—	—	1,099,336	0.0525%	**[REDACTED]**%
Qiming Venture Partners II-C, L.P.[11]	—	—	—	5,856,197	—	758,784	—	—	—	—	—	6,614,981	0.3159%	**[REDACTED]**%
Qiming Venture Partners II, L.P.[11]	—	—	—	66,877,929	—	8,665,304	—	—	—	—	—	75,543,233	3.6073%	**[REDACTED]**%
2020 Investment Partners Limited	—	—	63,426	17,129	7,297	23,709	—	—	—	330,552	74,374	516,487	0.0247%	**[REDACTED]**%
Mifans Investment LLC	—	—	64,694	17,472	7,443	24,184	—	—	—	337,164	75,862	526,819	0.0252%	**[REDACTED]**%
Binghe Age Group Corporation	—	—	95,138	25,694	10,946	35,564	—	—	—	495,829	111,561	774,732	0.0370%	**[REDACTED]**%
Moussedragon, L.P.	—	—	95,138	25,694	10,946	35,564	—	—	—	495,829	111,561	774,732	0.0370%	**[REDACTED]**%
Celia Safe Inc.	—	—	158,564	42,823	18,242	59,274	—		—	826,381	185,936	1,291,220	0.0617%	**[REDACTED]**%
Evertide Limited	—	—	317,128	85,646	36,485	118,547	—	—	—	1,652,763	371,872	2,582,441	0.1233%	**[REDACTED]**%
Circle Creek Investments Limited	—	—	317,128	85,646	36,485	118,548	—	—	—	1,652,763	371,871	2,582,441	0.1233%	**[REDACTED]**%
HOPU Gioura Company Limited	—	—	317,128	85,647	36,486	118,548	—	—	—	1,652,763	371,872	2,582,444	0.1233%	**[REDACTED]**%
Shiny Stone Limited	—	—	634,256	171,292	72,970	237,096	—	—	—	3,305,525	743,743	5,164,882	0.2466%	**[REDACTED]**%
Smart System Investment Fund, L.P.	—	—	951,385	256,939	109,456	355,641	—	—	—	4,958,289	1,115,616	7,747,326	0.3699%	**[REDACTED]**%

Shareholders	Class A ordinary shares of US$0.000025 each	Class B ordinary shares of US$0.000025 each	Series A Preferred Shares	Series B-1 Preferred Shares	Series B-2 Preferred Shares	Series C Preferred Shares	Series D Preferred Shares	Series E-1 Preferred Shares	Series E-2 Preferred Shares	Series F-1 Preferred Shares	Series F-2 Preferred Shares	Aggregate total number of shares of par value of US$0.000025 each as at the date of this [REDACTED][1]	Aggregate ownership percentage as at the date of this [REDACTED][1]	Aggregate ownership percentage upon completion of the [REDACTED][2]
Techline Investment Pte Ltd	—	—	951,385	256,939	109,456	355,643	—	—	—	4,958,288	1,115,615	7,747,326	0.3699%	[REDACTED]%
Kawa Investments LLC	—	—	—	200,000	—	—	—	—	—	—	—	200,000	0.0096%	[REDACTED]%
Robin Hon Bun Chan	—	—	—	—	—	191,004	—	—	—	—	—	191,004	0.0091%	[REDACTED]%
All-Stars XMI Limited	—	—	3,177,624	858,177	365,583	1,187,847	—	—	—	16,560,684	3,726,154	25,876,069	1.2356%	[REDACTED]%
China TMT Holding I Limited[12]	—	—	19,476,408	—	—	—	—	—	—	—	—	19,476,408	0.9300%	[REDACTED]%
China TMT Holding II Limited[12]	—	—	—	—	—	3,270,707	—	—	—	—	—	3,270,707	0.1562%	[REDACTED]%
Morningside China TMT Fund I, L.P.[12]	—	3,859,212	173,380,598	97,241,380	—	14,325,280	—	—	—	—	—	288,806,470	13.7910%	[REDACTED]%
Morningside China TMT Fund II, L.P.[12]	—	—	—	—	—	44,235,710	—	—	4,264,060	—	—	48,499,770	2.3159%	[REDACTED]%
CCDD International Holdings Limited	—	—	—	9,724,136	—	—	—	—	—	—	—	9,724,136	0.4643%	[REDACTED]%
IDG-Accel China Investors II L.P.[13]	—	—	—	—	1,237,368	1,443,992	—	—	—	—	—	2,681,360	0.1280%	[REDACTED]%
IDG-Accel China Growth Fund II L.P.[13]	—	—	—	—	15,129,969	17,656,384	—	—	—	—	—	32,786,353	1.5656%	[REDACTED]%
Wealth Plus Investments Limited	—	—	—	—	10,789,132	—	—	—	—	—	—	10,789,132	0.5152%	[REDACTED]%
Smart Promise Limited	—	—	—	—	—	556,666	—	—	—	—	—	556,666	0.0266%	[REDACTED]%
Qualcomm Incorporated	—	—	—	—	—	1,866,775	—	—	—	—	—	1,866,775	0.0891%	[REDACTED]%
Fast Sino Holdings Limited	—	—	—	—	—	3,820,072	—	—	—	—	—	3,820,072	0.1824%	[REDACTED]%
Sennett Investments (Mauritius) Ptd Ltd	—	—	—	—	—	9,550,184	—	—	—	—	—	9,550,184	0.4560%	[REDACTED]%
Shunwei Ventures Limited[14]	—	—	—	—	—	61,047,189	—	—	—	—	—	61,047,189	2.9151%	[REDACTED]%
Gamnat Pte. Ltd.[15]	—	—	—	—	—	—	23,499,265	—	—	—	—	23,499,265	1.1221%	[REDACTED]%
Apoletto Limited[16]	—	—	—	—	—	1,910,028	—	—	—	—	—	1,910,028	0.0912%	[REDACTED]%
Apoletto China I, L.P.[16]	—	—	—	—	—	—	36,638,268	—	—	—	—	36,638,268	1.7495%	[REDACTED]%
Apoletto China II, L.P.[16]	—	—	—	—	—	—	37,859,544	—	—	—	—	37,859,544	1.8079%	[REDACTED]%
Apoletto Investments II, L.P.[16]	—	—	—	—	—	—	2,420,815	—	—	—	—	2,420,815	0.1156%	[REDACTED]%
Apoletto China III, L.P.[16]	—	—	—	—	—	—	—	21,277,676	4,264,064	—	—	25,541,740	1.2197%	[REDACTED]%
Apoletto China IV, L.P.[16]	—	—	—	—	—	—	—	—	42,503,388	—	—	42,503,388	2.0296%	[REDACTED]%
Nokia Growth Partners II, L.P.	—	—	—	—	—	—	—	—	—	495,830	—	495,830	0.0237%	[REDACTED]%
Patrick Raymon MC Goldrick	—	—	—	—	—	—	—	—	—	7,437	—	7,437	0.0004%	[REDACTED]%
MBD 2015, L.P.	—	—	—	—	—	—	—	—	—	35,829	—	35,829	0.0017%	[REDACTED]%
Stone Street 2015, L.P.	—	—	—	—	—	—	—	—	—	40,588	—	40,588	0.0019%	[REDACTED]%
RNT Associates International Pte. Ltd.	—	—	—	—	—	—	—	—	—	49,583	—	49,583	0.0024%	[REDACTED]%
2015 Employee Offshore Aggregator, L.P.	—	—	—	—	—	—	—	—	—	81,974	—	81,974	0.0039%	[REDACTED]%
Dragoneer Global Fund II, L.P.	—	—	—	—	—	—	—	—	—	99,166	—	99,166	0.0047%	[REDACTED]%
Bridge Street 2015, L.P.	—	—	—	—	—	—	—	—	—	139,106	—	139,106	0.0066%	[REDACTED]%
Sinarmas Digital Ventures (HK) Limited	—	—	—	—	—	—	—	—	—	247,914	—	247,914	0.0118%	[REDACTED]%
Broad Street Principal Investments, L.L.C.	—	—	—	—	—	—	—	—	—	446,246	—	446,246	0.0213%	[REDACTED]%
Mecca International (BVI) Limited	—	—	—	—	—	—	—	—	—	9,916,601	—	9,916,601	0.4735%	[REDACTED]%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]%
TOTAL	**669,518,772**	**374,158,150**	**392,591,302**	**221,156,910**	**33,049,592**	**172,094,348**	**102,127,680**	**21,277,676**	**51,031,512**	**48,787,104**	**8,376,037**	**2,094,169,083**	**100%**	**100%**

(1) Our Company has adopted a WVR structure through two classes of Shares, Class A Shares and Class B Shares. Class A Shares entitle the Shareholder to 10 votes per share and Class B Shares entitle the Shareholder to one vote per share. In all other respects Class A Shares and Class B Shares rank pari passu. Each Preferred Share will automatically convert into one Class B Share upon completion of the **[REDACTED]**.

(2) Assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised.

(3) 240,000,000 Class A ordinary shares of par value US$0.000025 each and 30,000,000 Series A Preferred Shares are held by Lin Bin as trustee on trust for the benefit of, among others, Lin Bin and his family members. The remaining shares are held directly by Lin Bin.

(4) The entire interest of Smart Mobile Holdings Limited and Smart Player Limited is held on trust established for the benefit of, among others, Lei Jun and his family members. Includes 63,959,619 Class B ordinary shares of par value US$0.000025 each (or **[REDACTED]** Class B Shares following the Share Subdivision) issued to Smart Mobile Holdings Limited at par value to reward Lei Jun for his contributions to our Company.

(5) The entire interest of Wisdom Bloom International Limited is held on trust for the benefit of, among others, Wang Chuan and his family members.

(6) The entire interest of Lofty Power International Limited is held on trust for the benefit of, among others, Liu De and his family members.

(7) 27,304,168 Class B ordinary shares of par value US$0.000025 each and 1,518,912 Series B-2 Preferred Shares are held by Zhou Guangping as trustee on trust for the benefit of, among others, Zhou Guangping and his family members. The remaining shares are held directly by Zhou Guangping.

(8) The entire interest of Mini Stone Limited is held on trust for the benefit of, among others, Hong Feng and his family members.

(9) The entire interest of Natural Hero Limited is held on trust for the benefit of, among others, Li Wanqiang and his family members.

(10) The entire interest of Gifted Jade Limited is wholly-owned by Koh Tuck Lye.

(11) Qiming Venture Partners II L.P. and Qiming Venture Partners II-C, L.P. are funds managed by Qiming GP II, L.P., whose general partner is Qiming Corporate GP II, Ltd., which is also the general partner of Qiming Managing Directors Fund II, L.P.

(12) The Morningside Group consists of China TMT Holding I Limited, Morningside China TMT Fund I, L.P., China TMT Holding II Limited and Morningside China TMT Fund II, L.P.

(13) IDG-Accel China Growth Fund II L.P. and IDG-Accel China II Investors L.P. are funds controlled by IDG-Accel China Growth Fund GP II Associates Ltd.

(14) Shunwei Ventures Limited is a wholly-owned subsidiary of Shunwei China Internet Fund L.P. Shunwei Capital Partners GP, L.P. is the general partner of Shunwei China Internet Fund L.P. Shunwei Capital Partners GP Limited is the general partner of Shunwei Capital Partners GP, L.P. which is controlled by Koh Tuck Lye, our non-executive Director.

(15) Gamnat Pte. Ltd. is wholly-owned by Equivest Pte. Ltd and is affiliated with GIC Pte Ltd.

(16) Apoletto China I, L.P., Apoletto China II, L.P., Apoletto China III, L.P., Apoletto China IV, L.P. and Apoletto Investments II, L.P. are funds managed by Apoletto Managers Limited, which is under common control with Apoletto Limited.

PRE-[REDACTED] INVESTMENTS

1. Overview

We have received nine rounds of investment since our establishment, which are summarized below. All of our Pre-**[REDACTED]** Investors were issued Preferred Shares in our Company pursuant to the below Pre-**[REDACTED]** Investments.

	Round	Date of initial share purchase agreement	Date of last payment of consideration	Total number of shares under the share purchase agreement(s)	Cost per share paid(1)	Total funds raised by the Company	Discount to the [REDACTED](2)
1.	Series A	September 28, 2010	May 17, 2011	102,500,000 Series A Preferred Shares	US$0.10 per Series A Preferred Share	US$10,250,000	**[REDACTED]**%
2.	Series B	December 21, 2010	December 24, 2010	60,775,862 Series B-1 Preferred Shares 4,297,283 Series B-2 Preferred Shares	US$0.411348 per Series B-1 US$0.581763 per Series B-2 Preferred Share	US$27,500,030.15	**[REDACTED]**%
3.	Series B+	April 11, 2011	April 21, 2011	4,727,011 Series B-2 Preferred Shares	US$0.581763 per Series B-2 Preferred Share	US$2,750,000	**[REDACTED]**%
4.	Series B++	August 24, 2011	September 16, 2011	1,031,347 Series B-2 Preferred Shares	US$0.581763 per Series B-2 Preferred Share	US$600,000	**[REDACTED]**%
5.	Series C	September 30, 2011	April 16, 2012	42,020,822 Series C Preferred Shares	US$2.0942 per Series C Preferred Share	US$88,000,000	**[REDACTED]**%
6.	Series C+	November 10, 2011	November 29, 2011	1,002,765 Series C Preferred Shares	US$2.0942 per Series C Preferred Share	US$2,100,000	**[REDACTED]**%
7.	Series D	June 22, 2012	December 21, 2012	26,379,554 Series D Preferred Shares	US$8.1882 per Series D Preferred Share	US$216,000,000	**[REDACTED]**%
8.	Series E	August 5, 2013	August 6, 2013	5,319,419 Series E-1 Preferred Shares 1,066,016 Series E-2 Preferred Shares	US$15.04 per Series E-1 Preferred Share US$18.76 per Series E-2 Preferred Share	US$100,000,000	**[REDACTED]**%
9.	Series F	December 23, 2014	August 24, 2017	48,787,104 Series F-1 Preferred Shares	US$20.1682 per Series F-1 Preferred Share	US$983,948,070.89	**[REDACTED]**%
				8,376,037 Series F-2 Preferred Shares	US$17.9273 per Series F-2 Preferred Share	US$150,159,728	**[REDACTED]**%

(1) As adjusted to reflect subsequent share splits and other capital reorganizations, as applicable.

(2) The discount to the **[REDACTED]** is calculated based on the assumption that the **[REDACTED]** is HK$**[REDACTED]** per Share, being the mid-point of the indicative **[REDACTED]** range of HK$**[REDACTED]** to HK$**[REDACTED]**.

*2. Principal terms of the Pre-***[REDACTED]** *Investments*

[REDACTED] period	Upon request by the Company or the **[REDACTED]**, the Pre-**[REDACTED]** Investors will not sell or otherwise transfer or dispose of any securities of the Company (other than transfers to affiliates permitted by applicable laws) without the prior written consent of the Company or the **[REDACTED]**, as the case may be, for a period of up to one hundred and eighty (180) days from the **[REDACTED]**.
Use of proceeds from the Pre-**[REDACTED]** Investments	We utilized all of the proceeds from the Pre-**[REDACTED]** Investments for the development and operation of our business, including but not limited to personnel recruitment, new business and product development, technology infrastructure, office utilities and marketing.
Strategic benefits the Pre-**[REDACTED]** Investors brought to our Company	At the time of the Pre-**[REDACTED]** Investments, our Directors were of the view that our Company would benefit from the additional capital provided by the Pre-**[REDACTED]** Investors' investments in our Company and their knowledge and experience.
Basis of determining the consideration paid	The consideration for the Pre-**[REDACTED]** Investments were determined based on arm's length negotiations between our Company and the Pre-**[REDACTED]** Investors after taking into consideration the timing of the investments and the status of our business and operating entities.

*3. Special rights of the Pre-***[REDACTED]** *Investors*

All of our Pre-**[REDACTED]** Investors are currently bound by the terms of the Existing Articles, which will be replaced by our Articles effective upon completion of the **[REDACTED]**. Pursuant to the Pre-**[REDACTED]** Shareholders' Agreement, the Pre-**[REDACTED]** Investors were granted certain special rights in relation to our Company, including, among others, customary rights of first refusal to participate in future funding rounds, information rights, and anti-dilution and veto rights. The Pre-**[REDACTED]** Shareholders' Agreement and such special rights will terminate effective upon completion of the **[REDACTED]** in accordance with the terms of the Pre-**[REDACTED]** Shareholders' Agreement.

All of the Preferred Shares will convert to Class B ordinary shares of US$0.000025 each upon completion of the **[REDACTED]** (subject to the Share Subdivision) at which time our share capital will comprise two classes of Shares, Class A Shares and Class B Shares. For further information on the rights attached to our Class A Shares and Class B Shares, please see the section headed "Share Capital."

4. Public Float

Upon completion of the Share Subdivision and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and the options granted under the Pre-**[REDACTED]** ESOP are not exercised), Smart Mobile Holdings Limited and Smart Player Limited will in aggregate hold approximately **[REDACTED]**% of the issued share capital of the Company (on a one share, one vote basis). Smart Mobile Holdings Limited and Smart Player Limited are controlled by Lei Jun, our executive Director and a core connected person of the Company as defined in the Listing Rules. The Shares held directly or

indirectly by Smart Mobile Holdings Limited and Smart Player Limited will therefore not be counted towards the public float.

Upon completion of the Share Subdivision and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and the options granted under the Pre-**[REDACTED]** ESOP are not exercised), Lin Bin will be interested in approximately **[REDACTED]**% of the issued share capital of the Company (on a one share, one vote basis). Lin Bin is an executive Director and core connected person of the Company as defined in the Listing Rules. The Shares held directly or indirectly by Lin Bin will therefore not be counted towards the public float.

Upon the completion of the Share Subdivision and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and the options granted under the Pre-**[REDACTED]** ESOP are not exercised), Shunwei Ventures Limited will hold approximately **[REDACTED]**% of the issued share capital of the Company (on a one share, one vote basis). Shunwei Ventures Limited is indirectly controlled by Koh Tuck Lye. Upon the completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised), Gifted Jade Limited will hold approximately **[REDACTED]**% of the issued share capital of the Company (on a one share, one vote basis). Gifted Jade Limited is wholly-owned by Koh Tuck Lye. Koh Tuck Lye is a non-executive Director and a core connected person of the Company, as defined under the Listing Rules. The Shares held by Shunwei Ventures Limited and Gifted Jade Limited will therefore not be counted towards the public float.

Upon completion of the Share Subdivision and the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and assuming the options granted under the Pre-**[REDACTED]** ESOP are not exercised), Morningside China TMT Fund I, L.P., Morningside China TMT Fund II, L.P., China TMT Holding I Limited and China TMT Holding II Limited will collectively hold **[REDACTED]**% of the total issued share capital of the Company (on a one share, one vote basis) and will be a core connected person of the company as defined under the Listing Rules. The Shares held directly and indirectly by Morningside China TMT Fund I, L.P., Morningside China TMT Fund II, L.P., China TMT Holding I Limited and China TMT Holding II Limited will therefore not be counted towards the public float.

Save as provided above, upon completion of the Share Subdivision and the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised), the other Pre-**[REDACTED]** Investors (excluding our Founder, our Co-founders and the entities controlled by them) will collectively hold **[REDACTED]** Class B Shares or approximately **[REDACTED]**% of the issued share capital of the Company (on a one share, one vote basis). Save as disclosed above, no other Pre-**[REDACTED]** Investor is a core connected person of the Company, as defined in the Listing Rules. Therefore, the Shares held by the other Pre-**[REDACTED]** Investors will count towards the public float.

5. Information about our principal Pre-*[REDACTED] ***Investors***

Set out below is a description of our Pre-**[REDACTED]** Investors that are sophisticated investors, being private equity funds and investment companies, and that have made meaningful investments in our Company (each holding between 1.1221% to 17.1931% of our total issued and outstanding Shares immediately prior to the **[REDACTED]** (assuming all the Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each)).

Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P. are private equity funds registered in the Cayman Islands. Morningside China TMT Fund I, L.P. is controlled by

Morningside China TMT GP, L.P., its general partner. Morningside China TMT Fund II, L.P. is controlled by Morningside China TMT GP II, L.P., its general partner. Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P. are both controlled by TMT General Partner Ltd., their general partner. China TMT Holding I Limited and China TMT Holding II Limited are investment holding vehicles incorporated in the BVI, and wholly-owned by Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P., respectively. As of the date of this **[REDACTED]**, Morningside China TMT Fund I, L.P., Morningside China TMT Fund II, L.P., China TMT Holding I Limited and China TMT Holding II Limited collectively hold approximately 17.1931% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

Qiming Venture Partners II, L.P., Qiming Venture Partners II-C, L.P. and Qiming Managing Directors Fund II, L.P. are collectively referred to as the Qiming Group. The general partner of Qiming Venture Partners II, L.P. and Qiming Venture Partners II-C, L.P. is Qiming GP II, L.P., a Cayman Islands exempted limited partnership, whose general partner is Qiming Corporate GP II, Ltd., a Cayman Islands limited company which is also the general partner of Qiming Managing Directors Fund II, L.P. As of the date of this **[REDACTED]**, Qiming Group collectivity holds approximately 3.9757% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

Both IDG-Accel China Growth Fund II L.P. ("**IDG-Accel Growth II**") and IDG-Accel China Investors II L.P. ("**IDG-Accel Investors II**," together with IDG-Accel Growth II, "**IDG-Accel Fund II**") are Cayman exempted limited partnerships. IDG-Accel Fund II is engaged in making venture capital investment primarily in growth stage companies in mainland China. IDG-Accel Fund II is managed and controlled by its sole general partner, IDG-Accel China Growth Fund II Associates L.P., which is also a Cayman exempted limited partnership and is in turn, controlled by its general partner, IDG-Accel China Growth Fund GP II Associates Ltd., ("**IDG-Accel GP Ltd.**"), a Cayman limited company. IDG–Accel GP Ltd. is also acting as the sole general partner of IDG-Accel Investors II. As of the date of this **[REDACTED]**, IDG-Accel Fund II holds approximately 1.6936% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

Apoletto China I, L.P., Apoletto China II, L.P., Apoletto China III, L.P., Apoletto China IV, L.P. and Apoletto Investments II, L.P. are funds managed by Apoletto Managers Limited, which is under common control with Apoletto Limited (collectively, "**Apoletto**"). As of the date of this **[REDACTED]**, Apoletto China I, L.P., Apoletto Limited, Apoletto China II, L.P., Apoletto China III, L.P., Apoletto China IV, L.P. and Apoletto Investments II, L.P. collectively hold approximately 7.0135% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

Gamnat Pte. Ltd is wholly-owned by Equivest Pte. Ltd and is affiliated with GIC Pte Ltd. ("**GIC**"). GIC is a leading global investment firm established in 1981 to manage Singapore's foreign reserves. As a disciplined long-term investor, GIC is uniquely positioned for investments across a wide range of asset classes, including equities, fixed income, private equity, real estate and infrastructure. GIC has investments in over 40 countries and has been investing in emerging markets for more than two decades. As of the date of this **[REDACTED]**, GIC holds approximately 1.1221% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

Shunwei Ventures Limited is an investment holding company incorporated under the laws of the BVI, and is wholly-owned by Shunwei China Internet Fund, L.P., a fund focused on venture capital investments in technology, media, and telecommunications industry. The general partner of Shunwei China Internet Fund, L.P. is Shunwei Capital Partners GP, L.P., whose general partner in turn, is Shunwei Capital Partners GP Limited. As of the date of this **[REDACTED]**, Shunwei Ventures Limited holds approximately 2.9151% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

All-Stars XMI Limited is a company limited by shares incorporated under the laws of the British Virgin Islands. All-Stars XMI Limited is an investment holding company controlled by All-Stars Investment Limited, which focuses on investing in technology leaders and acquired the preferred shares of the Company. As of the date of this **[REDACTED]**, All-Stars XMI Limited holds approximately 1.2356% of the total issued and outstanding Shares (assuming all Preferred Shares are converted into Class B ordinary shares of par value US$0.000025 each).

COMPLIANCE WITH INTERIM GUIDANCE AND GUIDANCE LETTERS

Based on the documents provided by the Company relating to the Pre-**[REDACTED]** Investments, the Joint Sponsors confirm that the Pre-**[REDACTED]** Investments are in compliance with Guidance Letter HKEX-GL29-12 issued by the Stock Exchange in January 2012 and updated in March 2017, Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and updated in July 2013 and March 2017 and Guidance Letter HKEX-44-12 issued by the Stock Exchange in October 2012 and updated in March 2017.

REGULATORY REQUIREMENTS OF MAINLAND CHINA

According to the Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》) (the "**M&A Rules**") jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the SAIC and the SAFE on August 8, 2006, effective as of September 8, 2006 and amended on June 22, 2009, if a mainland China company or individual intends to acquire its/his/her related domestic company through an offshore company which it/he/she lawfully established or controls, such acquisition shall be subject to the examination and approval of MOFCOM. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for **[REDACTED]** purposes and controlled directly or indirectly by mainland China companies or individuals, shall obtain the approval of the CSRC prior to the **[REDACTED]** and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or equity interests in the mainland China companies in exchange for the shares of offshore companies.

JunHe LLP, our legal advisor as to the laws of mainland China, is of the opinion that, unless new laws and regulations are enacted or MOFCOM and CSRC publish new provisions or interpretations on the M&A Rules in the future, prior CSRC or MOFCOM approval for the **[REDACTED]** is not required because (i) the CSRC currently has not issued any definitive rule or interpretation concerning whether **[REDACTED]** akin to this **[REDACTED]** are subject to the M&A Rules; (ii) our mainland China subsidiaries were established by foreign direct **[REDACTED]**, rather than through a merger or acquisition of a domestic company as defined under the M&A Rules; and (iii) that no

provision in the M&A Rules clearly classified contractual arrangements as a type of transaction subject to the M&A Rules. However, there is uncertainty as to how the M&A Rules will be interpreted or implemented.

SAFE REGISTRATION IN MAINLAND CHINA

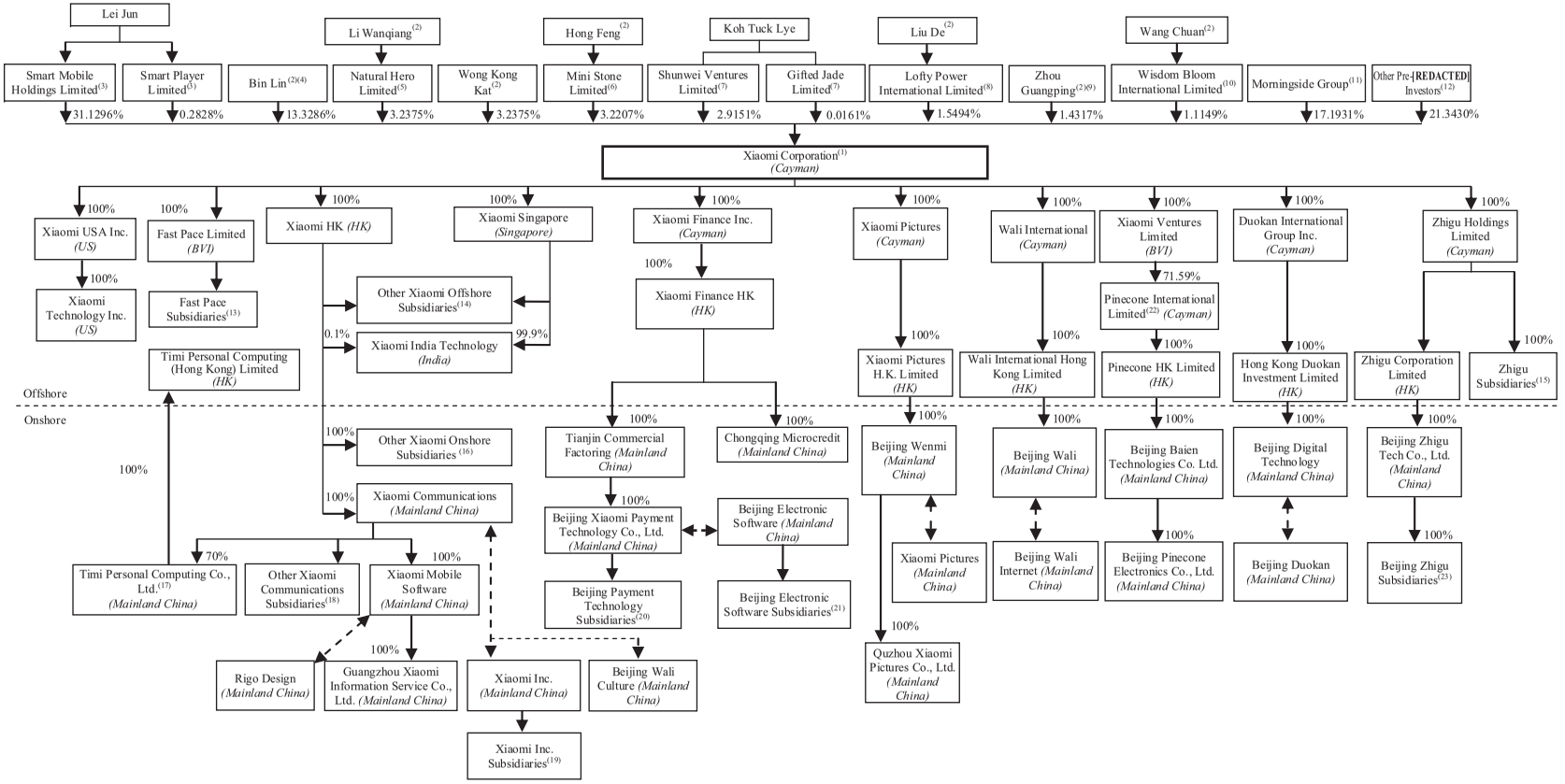
Pursuant to the SAFE Circular on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular 37**"), promulgated by SAFE and which replaced the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the "**SAFE Circular 75**") which became effective on July 14, 2014, (a) a mainland China resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or indirectly controlled by the mainland China resident for the purpose of conducting investment or financing, and (b) following the initial registration, the mainland China resident is also required to register with the local SAFE branch for any major change in respect of the Overseas SPV, including, among other things, a change of Overseas SPV's mainland China resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the SAFE Circular on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**SAFE Circular 13**"), promulgated by SAFE which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity are located.

As advised by JunHe LLP, our legal advisor as to the laws of mainland China, our Founder, Lei Jun and all of the Chinese resident Co-founders, namely, Hong Feng, Li Wanqiang, Liu De and Wang Chuan, have conducted the registration under the SAFE Circular 37.

CORPORATE STRUCTURE IMMEDIATELY PRIOR TO THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Group immediately prior to the completion of the **[REDACTED]**.



Notes:

(1) The Company is controlled through weighted voting rights, as represented by the diagram above. Each Class A Share has 10 votes and each Class B Share has one vote, capable of being exercised on resolutions in general meeting. For the Reserved Matters, the Class A Shares held directly and indirectly by Lei Jun and Lin Bin are only entitled to one vote per share, and in relation to the Reserved Matters, the percentage of voting rights Lei Jun and Lin Bin are capable of exercising are **[REDACTED]**% and **[REDACTED]**%, respectively, for resolutions with respect to matters other than the Reserved Matters, in relation to which each Share carries one vote. For further details, refer to the section headed "Share Capital."

(2) Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping are our Co-founders.

(3) The entire interests of Smart Mobile Holdings Limited and Smart Player Limited are held on trust established for the benefit of, among others, Lei Jun and his family members. Additionally, pursuant to the Voting Proxy Agreements, certain minority shareholders have granted Lei Jun a voting proxy over Class B Shares representing **[REDACTED]**% of the issued share capital or **[REDACTED]**% of the voting rights of the Company with respect to the Reserved Matters, immediately upon completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised).

(4) 240,000,000 Class A ordinary shares of par value US$0.000025 each and 30,000,000 Series A Preferred Shares are held by Lin Bin as trustee on trust for the benefit of, among others, Lin Bin and his family members. The remaining shares are directly held by Lin Bin.

(5) The entire interest of Natural Hero Limited is held on trust established for the benefit of, among others, Li Wanqiang and his family members.

(6) The entire interest of Mini Stone Limited is held on trust established for the benefit of, among others, Hong Feng and his family members.

(7) Shunwei Ventures Limited is a wholly-owned subsidiary of Shunwei China Internet Fund L.P. Shunwei Capital Partners GP Limited is the general partner of Shunwei China Internet Fund L.P. Shunwei Capital Partners GP, L.P. which is controlled by Koh Tuck Lye, our non-executive Director. The entire interest of Gifted Jade Limited is wholly-owned by Koh Tuck Lye.

(8) The entire interest of Lofty Power International Limited is held on trust established for the benefit of, among others, Liu De and his family members.

(9) 27,304,168 Class B ordinary shares of par value US$0.000025 each and 1,518,912 Series B-2 Preferred Shares are held by Zhou Guangping as trustee on trust for the benefit of, among others, Zhou Guangping and his family members. The remaining shares are directly held by Zhou Guangping.

(10) The entire interest of Wisdom Bloom International Limited is held on trust established for the benefit of, among others, Wang Chuan and his family members.

(11) The Morningside Group consists of Morningside China TMT Fund I, L.P., Morningside China TMT Fund II, L.P., China TMT Holding I Limited and China TMT Holding II Limited. For further information, refer to section headed "—Pre-**[REDACTED]** Investments—Information about our Principal Pre-**[REDACTED]** Investors."

(12) The remaining interest is held by the other Pre-**[REDACTED]** Investors. For details please see "—Pre-**[REDACTED]** Investments—Overview" above.

(13) Fast Pace Subsidiaries include the following direct wholly-owned subsidiaries of Fast Pace Limited, all incorporated in the BVI:
- (a) Blue Better Limited;
- (b) People Better Limited;
- (c) Red Better Limited; and
- (d) Green Better Limited.

(14) Other Xiaomi Offshore Subsidiaries include the following indirect subsidiaries of the Company:
- (a) PT. Xiaomi Communications Indonesia, incorporated in Indonesia and owned by Xiaomi HK as to approximately 80.37% and Xiaomi Singapore as to approximately 19.63%;
- (b) PT. Xiaomi Technology Indonesia, incorporated in Indonesia and owned by Xiaomi HK as to approximately 99.92% and Xiaomi Singapore as to approximately 0.08%;
- (c) Taiwan Xiaomi Communications Co., Ltd. (臺灣小米通訊有限公司), established in Taiwan and wholly-owned by Xiaomi HK;
- (d) Xiaomi Communications and Logistics India Private Limited, incorporated in India and owned by Xiaomi Singapore as to 99.9967% and Jain Manu Kumar, who is a director of Xiaomi India Technology, as to 0.0033%;
- (e) Xiaomi Do Brasil Tecnologia Ltda., incorporated in Brazil and wholly-owned by Xiaomi Singapore;
- (f) Xiaomi Malaysia SDN. BHD., incorporated in Malaysia and wholly-owned by Xiaomi Singapore;
- (g) Xiaomi Philippines Corporation, incorporated in Philippines and owned by Xiaomi Singapore as to 99.9944% and Jose Cochingyan, Sheryl Bartolome, Aimee Abigail Salamat, [Liu Yi] and Enerie Medrano, all of whom are directors of Xiaomi Philippines Corporation, as to 0.0056% in aggregate;
- (h) Xiaomi Technology Spain, S.L. incorporated in Spain and wholly-owned by Xiaomi H.K Limited; and
- (i) Xiaomi Singapore Fintech Private Limited incorporated in Singapore and wholly-owned by Xiaomi Finance H.K. Limited.

(15) Zhigu Subsidiaries include:
- (a) Maine Hub Company LLC, incorporated in the US and directly wholly owned by Zhigu Holdings Limited; and
- (b) Artois LLC, incorporated in the US and wholly-owned by Maine Hub Company LLC.
  [To the best knowledge of the Directors, each of Maine Hub Company LLC and Artois LLC was in the process of deregistration as of the Latest Practicable Date.].

(16) Other Xiaomi Onshore Subsidiaries include the following indirect wholly-owned subsidiaries of the Company established in mainland China:
- (a) Beijing Xiaomi Electronics Co., Ltd. (北京小米電子產品有限公司), which is wholly-owned by Xiaomi HK; and
- (b) Beijing Xiaomi Software Co., Ltd. (北京小米軟件技術有限公司), which is wholly-owned by Xiaomi HK.

(17) The remaining 30% interest in Timi Personal Computing Co., Ltd. (北京田米科技有限公司) is held by two indirect wholly-owned subsidiaries of the Company, as to 20% and 10% and the company transfer registration is being obtained.

(18) Other Xiaomi Communications Subsidiaries include the following direct wholly-owned subsidiaries of Xiaomi Communications:
- (a) Xiaomi Technology (Wuhan) Co., Ltd. (小米科技(武漢)有限公司);

(b) Xiaomi Home Commercial Co., Ltd. (小米之家商業有限公司);
(c) Xiaomi Home Technology Co., Ltd. (小米之家科技有限公司);
(d) Guangdong Xiaomi Inc. (廣東小米科技有限責任公司);
(e) Zhuhai Xiaomi Communications Co., Ltd. (珠海小米通訊技術有限公司);
(f) Tibet Zimi Communications Co., Ltd. (西藏紫米通訊技術有限公司); and
(g) Guangzhou Xiaomi Communications Co., Ltd. (廣州小米通訊技術有限公司).

(19) Xiaomi Inc. Subsidiaries include:
(a) Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司), which is wholly-owned by Xiaomi Inc.;
(b) Xiaomi Industrial Investment Management Co., Ltd. (小米產業投資管理有限公司), which is wholly-owned by Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司);
(c) Jiefu Ruitong Inc. (捷付睿通股份有限公司), which is owned by Xiaomi Inc. as to 65% and Shengyin Herui Techonology Co., Ltd. (盛銀和睿科技有限公司) and Wu Jun, both of whom are Independent Third Parties, as to 32% and 3%, respectively. As part of the XMF Restructuring, the equity interest in Jiefu Ruitong held by Xiaomi Inc. is in the process of being transferred to Beijing Electronic Software, subject to the approvals from the relevant regulatory authorities in mainland China;
(d) Hubei Xiaomi Changjiang Industrial Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)), which is a limited partnership controlled by its general partner Hubei Xiaomi Changjiang Industrial Investment Fund Management Limited (湖北小米長江產業投資基金管理有限公司) and its interest is owned by Xiaomi Inc. as to 99.50% and Hubei Xiaomi Changjiang Industrial Investment Fund Management Limited (湖北小米長江產業投資基金管理有限公司) as to 0.50%;
(e) Hubei Jiayue Equity Investment Partners (Limited Partnership) (湖北嘉月股權投資合夥企業(有限合夥)), which is a limited partnership controlled by its general partner Hubei Xiaomi Changjiang Industrial Investment Fund Management Limited (湖北小米長江產業投資基金管理有限公司) and its interest is owned by Hubei Xiaomi Changjiang Industrial Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) as to 99.1% and Hubei Xiaomi Changjiang Industrial Investment Fund Management Limited (湖北小米長江產業投資基金管理有限公司) as to 0.99%;
(f) Tianjin Zhongmi Enterprise Management Partners (Limited Partnership) (天津衆米企業管理合夥企業(有限合夥)), is a limited partnership controlled by its general partner Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司) and its interest is owned by Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司) as to 0.003% and 15 limited partners, all of which are controlled by their general partner Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司), as to the remaining 99.997% in aggregate;
(g) Tianjin Gold Mi Investment Partners (Limited Partnership) (天津金米投資合夥企業(有限合夥)), is a limited partnership controlled by its general partner Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司) and its interest is owned by Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司) as to 70.65% and Tianjin Zhongmi Enterprise Management Partners (Limited Partnership) (天津衆米企業管理合夥企業（有限合夥）) as to 29.35%; and
(h) Hubei Xiaomi Changjiang Industrial Investment Fund Management Limited (湖北小米長江產業投資基金管理有限公司) is owned by Xiaomi Industrial Investment Management Co., Ltd. (小米產業投資管理有限公司) as to 80% and [Hubei Changjiang Economic Belt Industry Fund Management Co., Ltd. (湖北省長江經濟帶產業基金管理有限公司)] as to 15% and Wuhan Guanggu Industry Investment Fund Management Co., Ltd. (武漢光穀產業投資基金管理有限公司)] as to 5%; and
(i) Chongqing Xiaomi Commercial Factoring Co., Ltd. (重慶小米商業保理有限公司).

(20) Beijing Payment Technology Subsidiaries include the following direct wholly-owned subsidiaries of Beijing Payment Technology:
(a) Chengdu Beida Asset Management Co., Ltd. (成都倍達資產管理有限公司); and
(b) Shanghai Xiaomi Financial Information Service Co., Ltd. (上海小米金融信息服務有限公司).

(21) Beijing Electronic Software Subsidiaries include:
(a) the following direct wholly-owned subsidiaries of Beijing Electronic Software:
i. Xiaomi Credit Management Co. Ltd. (小米信用管理有限公司);
ii. Shanghai Xiaomi Huike Information Service Co., Ltd. (上海小米慧科信息技術服務有限公司);
iii. Sichuan Silver Mi Technology Co., Ltd. (四川銀米科技有限責任公司);
(b) Beijing Xiaomi Insurance Brokers Co., Ltd. (北京小米保險經紀有限公司), which is wholly-owned by Sichuan Silver Mi Technology Co., Ltd. (四川銀米科技有限責任公司); and

As of the Latest Practicable Date, Jiefu Ruitong Inc. (捷付睿通股份有限公司) ("**Jiefu Ruitong**") was held by Xiaomi Inc. (a company outside of the XMF Group) as to 65% and Shengyin Herui Technology Co., Ltd. (盛銀和睿科技有限公司) and Wu Jun, both of whom are Independent Third Parties, as to 32% and 3%, respectively.

(22) The remaining 28.41% interest in Pinecone International is held by X-Lab Limited as to 23.30% and Zhou Guangping as to 5.11%. X-Lab Limited is wholly-owned by the founder of Pinecone International.

(23) Beijing Zhigu Subsidiaries include:

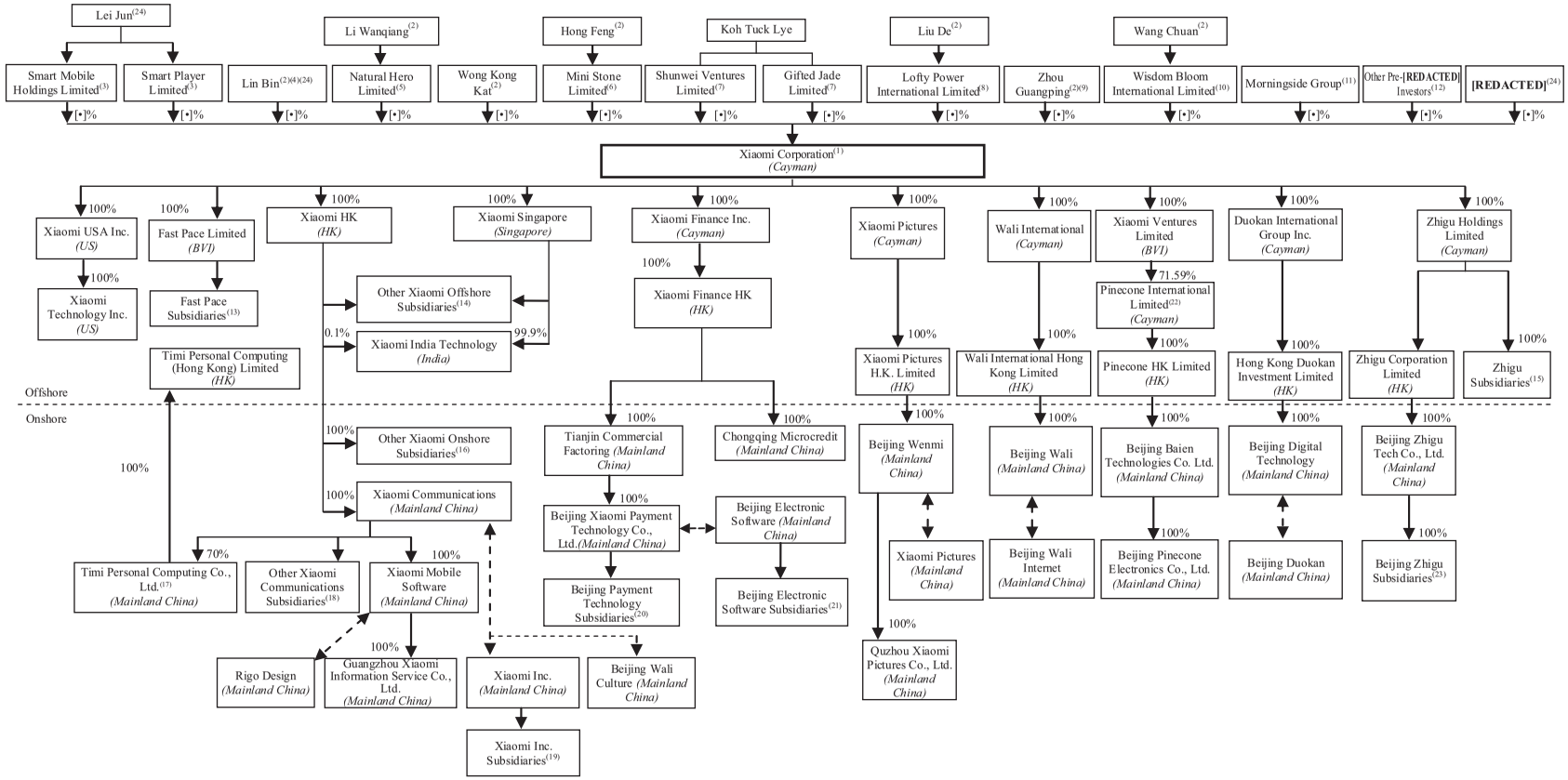
(a) Beijing Zhigu Ruituo Tech Co., Ltd. (北京智谷睿拓技術服務有限公司), which is wholly-owned by Beijing Zhigu Tech Co., Ltd. (北京智谷科技有限公司);

(b) Beijing Zhigu Technology Consulting Service Co., Ltd. (北京智谷技術諮詢服務有限公司), which is wholly-owned by Beijing Zhigu Ruituo Tech Co., Ltd. (北京智谷睿拓技術服務有限公司); and

(c) Beijing Ruichuang Investment Management Center (Limited Partnership) (北京睿創投資管理中心(有限合夥)), which is a limited partnership controlled by its general partner Beijing Zhigu Technology Consulting Service Co., Ltd. (北京智谷技術諮詢服務有限公司). The interest in Beijing Ruichuang Investment Management Center (Limited Partnership) (北京睿創投資管理中心(有限合夥)) is owned by Beijing Zhigu Technology Consulting Service Co., Ltd. (北京智谷技術諮詢服務有限公司) as to 10%, Tianjin Gold Mi Investment Partners (Limited Partnership) (天津金米投資合夥企業(有限合夥)) as to 30%, Zhongguancun Science Park Haidianyuan Entrepreneurial Service Center (中關村科技園區海澱園創業服務中心) as to 20%, Beijing Zhongguancun Entrepreneurial Investment Development Co., Ltd. (北京中關村創業投資發展有限公司) as to 20%, Chengdu Jinshan Hudong Entertainment Technology Co., Ltd. (成都金山互動娛樂科技有限公司) as to 10%, and Huizhou TCL Mobile Communication Co., Ltd. (惠州TCL移動通信有限公司) as to 10%. Beijing Zhigu Technology Consulting Service Co., Ltd. (北京智谷技術諮詢服務有限公司) and Tianjin Gold Mi Investment Partners (Limited Partnership) (天津金米投資合夥企業 (有限合夥)) are wholly-owned subsidiaries of the Group. Zhongguancun Science Park Haidianyuan Entrepreneurial Service Center (中關村科技園區海澱園創業服務中心), Beijing Zhongguancun Entrepreneurial Investment Development Co., Ltd. (北京中關村創業投資發展有限公司) , Chengdu Jinshan Hudong Entertainment Technology Co., Ltd. (成都金山互動娛樂科技有限公司) and Huizhou TCL Mobile Communication Co., Ltd. (惠州TCL移動通信有限公司) are Independent Third Parties.

CORPORATE STRUCTURE IMMEDIATELY FOLLOWING THE [REDACTED]

The following diagram illustrates the corporate and shareholding structure of our Group immediately following to the completion of the **[REDACTED]** (assuming the **[REDACTED]** is not exercised and the options granted under the Pre-**[REDACTED]** ESOP are not exercised). In relation to the shareholding of the Company, the diagram below illustrates the voting power of the Shareholders.



Notes (1) to (23): Please refer to the details contained in the preceding pages subject to adjustments for the Share Subdivision and the conversion of the Preferred Shares to Class B Shares.

(24) The Company is controlled through weighted voting rights, as represented by the diagram above. Each Class A Share has 10 votes and each Class B Share has one vote, capable of being exercised on resolutions in general meetings. For the Reserved Matters, the Class A Shares held directly and indirectly by Lei Jun and Lin Bin are only entitled to one vote per share, and for all matters other than the Reserved Matters, the percentage of voting rights Lei Jun and Lin Bin are capable of exercising are **[REDACTED]**% and **[REDACTED]**%, respectively. For further details, refer to the section headed "Share Capital."

(25) [REDACTED]

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core.

Our Mission

We relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

Under the leadership of Lei Jun, Xiaomi was founded in 2010 by a group of accomplished engineers and designers, who believed that high-quality and well-designed technology products and services should be accessible to the world. To achieve this, we are unwavering in our pursuit of advances in innovation, quality, design, user experience and efficiency in an effort to provide the best technology products and services that are accessibly priced to our users.

Our Pledge: In order to achieve our mission, we pledge to our existing and potential users that starting in 2018, Xiaomi's hardware business (including smartphone, IoT and lifestyle products) will have an overall net profit margin that will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess above 5% to our users.

Our Vision

Be friends with our users. Be the coolest company in the hearts of our users.

Our Core Values

Our core values are sincerity and passion.

Our values enable us to pursue and uphold our mission and vision. Our passion for our business drives us to pursue artisanal craftsmanship in all our products. We aspire for perfection in every detail, even if others may not notice immediately. Our sincerity drives us to place our users at the heart of everything we do and listen attentively to their every request. It motivates us to pursue efficiency in our business model in order to continuously provide our users with unparalleled value.

Our Mi Fans

We have a large and highly engaged global user base with approximately 190 million monthly active MIUI users as of March 2018. We believe that our user base is differentiated by our "Mi Fans," a large global community of passionate users who are intensely loyal to the Xiaomi brand, are highly engaged on our platform and actively contribute feedback and feature ideas to our product development. As of March 31, 2018, over 1.4 million users had more than five connected Xiaomi products (excluding smartphones and laptops). In addition, our users are very vocal on our MIUI forum, which has over nine million MAUs in March 2018. As of March 31, 2018, our users had collectively generated approximately 250 million posts on our MIUI forum since we launched it in August 2010.

"Mi Pop" - Mi Fan Event

Shenzhen

"Mi Pop" - Mi Fan Event

Bangalore

Madrid

Our Milestones

Our unique mission, vision and core values have made the following significant achievements possible since our inception in 2010:

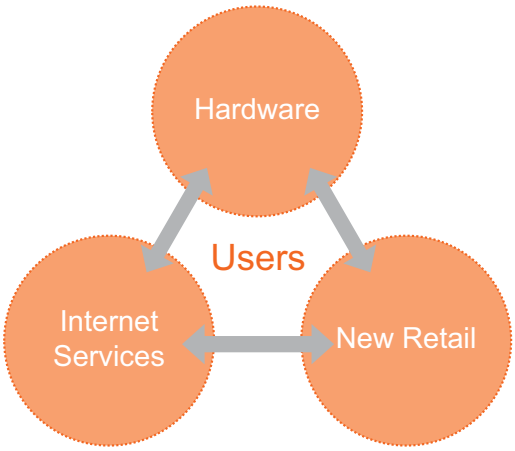
- 2012: Annual sales exceeded US$1 billion (two years after inception)
- 2014: Number one smartphone company in mainland China by unit shipments, according to IDC (three years after launching our first smartphone)
- 2014: Annual sales exceeded US$10 billion, four years after inception, which is the fastest in history, according to iResearch
- 2015: MIUI MAUs exceeded 100 million
- 2017: The world's largest consumer IoT platform in terms of the number of connected devices (excluding smartphones and laptops), according to iResearch
- 2017: Number one smartphone company in India by unit shipments in the fourth quarter of 2017, according to IDC (three and a half years after officially entering the India market)
- 2017: Fastest growing internet company and second fastest growing company globally, as measured by organic revenue growth compared to publicly-listed profitable companies with revenue of over RMB100 billion in 2017, according to iResearch

Our Business Model

Our Company is built on innovation and efficiency. As a company founded by engineers and designers, we embrace a culture of bold innovation to push the boundaries of what technology can

offer. A spirit of innovation permeates our Company and guides everything we do. In addition, we are relentless in our pursuit of efficiency. We strive to achieve cost savings to deliver value back to our users.

Our unique and powerful "triathlon" business model comprises three synergistic pillars of growth—(i) innovative, high quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail allowing for our products to be priced accessibly and (iii) engaging internet services.



Hardware

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention. For our core in-house products, we focus on designing and developing a range of cutting-edge hardware products including smartphones, laptops, smart TVs, AI speakers and smart routers.

We curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies were focused on the development of smart hardware and lifestyle products as of March 31, 2018. This has enabled us to build the largest consumer IoT platform globally as of December 2017, according to iResearch. We had over 100 million connected devices, excluding smartphones and laptops, as of March 31, 2018. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

New Retail

Our highly efficient omni-channel new retail distribution platform is a core component of our growth strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our users' experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with users. We were number one in terms of smartphone unit shipments online in both mainland China and India in the fourth quarter of 2017, according to IDC. In particular, Mi Store was the third-largest 3C and home appliances direct

sales online retail platform in mainland China by GMV in 2017, according to iResearch. We were also the third-largest direct sales online retail platform by GMV in India in 2017, according to the same source. Since 2015, we have significantly expanded our direct offline retail network, for example, through our self-operated Mi Home stores. Our direct offline retail capability allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. In 2017, our self-operated Mi Home stores generated the second highest average sales per square meter amongst retail store chains globally, according to iResearch. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

Internet Services

We provide internet services to give our users a complete mobile internet experience. In March 2018, we had approximately 190 million MAUs on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between hardware and internet services enable us to provide our users with better user experience. Furthermore, we have a proven track record of developing killer apps. In March 2018, we had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs, including our Mi App Store, Mi Browser, Mi Music and Mi Video apps. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit.

Network Effects

Our unique and powerful triathlon business model comprises three synergistic pillars that are closely connected. We strive to offer killer products that are high quality, high performance, well designed and honestly priced. These products in turn bring additional traffic to our retail channels. We deliver our products to users at accessible prices through our highly efficient new retail channels such as our e-commerce platforms and our Mi Home stores. With our internet services, we closely engage and interact with users on our platform, thus increasing user stickiness and monetization opportunities.

This business model has led to powerful network effects across our platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we are set to deliver better and richer user experience, which will, in turn, attract more users to our platform.

Cloud, Big Data and Artificial Intelligence (AI)

We believe that the sheer amount of unique consumer and behavioral data created by our platform gives us a massive advantage in the field of big data and AI. For example, the extensive breadth of our connected smart hardware portfolio places our platform at the center of the daily lives of our users; our retail channels allow us to deeply understand the purchasing habits of our users; and our users express their online preferences through our cloud services, apps and internet services. As a result, we can leverage our understanding of each user's personalized needs and habits to provide

customized recommendations and further improve our monetization ability. Our unified Xiaomi account service, launched in 2012, allows our users to get access to cloud services, shop online, enjoy content and access many services we provide. With prior user consent, we have accumulated more than 230PB of proprietary data on our cloud services as of March 31, 2018. Such data is stored in compliance with strict data privacy standards and data security requirements we have in place. See section headed "—Data Privacy and Protection." Since 2016, the privacy practice of our MIUI and Mi Store has been certified by TrustArc, a privacy compliance and risk management company that conducts comprehensive assessments of privacy policy and control measures. Our proprietary deep learning and AI capabilities together with the active user engagement on our platform, empower us to continuously improve our products and services. For example, our facial recognition technology, the core of our computer vision technology, forms a positive feedback loop with our users' activities such that an increasing amount of user data further improves the precision and efficiency of our algorithm. The entire process is based solely on collected user behavioral statistics and does not involve users' data privacy. Going forward, we will continue to launch new and smarter AI-enabled technology products and services such as our AI speaker, which was launched in July 2017.

Our Global Opportunities

Since our inception in 2010, we have continually grown our user base in mainland China through our pioneering business model. We have also successfully tailored our strategy internationally to new markets and are present in 74 countries and regions as of March 31, 2018. We have successfully achieved a foothold in key international markets. For example, we ranked number one in India in terms of smartphone unit shipments in the fourth quarter of 2017 and were also the top five in 15 markets, according to IDC.

We see massive global opportunities ahead of us. There were approximately 3.9 billion mobile internet consumers globally in 2017 according to iResearch. The global smartphone and consumer IoT device installed base are expected to grow at 6% and 25% CAGR, respectively, from 2017 to 2022, according to IDC and iResearch. This indicates that there will be continued demand for premium products and services at accessible and honest prices to achieve a connected lifestyle.

For example, we were able to price our Redmi Note 5 Pro in India at a price point that was significantly lower than comparable products, while simultaneously offering high quality specifications and great user experience. By continuing to deliver innovative, high-quality, well-designed and accessibly priced products and services focused on exceptional user experience, we believe we are best positioned to meet the needs of users globally. We embrace this opportunity to change the world by letting everyone in the world enjoy a better life through innovative technology.

As we expand our business globally, we have been able to achieve increasing profitability as we grow our revenue. During our Track Record Period, our revenue grew from RMB66.8 billion in 2015 to RMB114.6 billion in 2017. We had an adjusted non-IFRS profit of RMB5.4 billion in 2017, compared to an adjusted non-IFRS loss of RMB0.3 billion in 2015.

OUR STRENGTHS

1. Our Founders

Xiaomi is led by our Founder, Chairman and Chief Executive Officer, Lei Jun, a highly respected entrepreneur with close to 30 years of industry experience. Lei Jun previously co-founded successful internet companies such as Kingsoft (HKEx Stock Code: 3888) and Joyo.com (sold to

Amazon in 2004) and was a key investor in leading internet companies such as YY Inc. (Nasdaq ticker: YY) and UCWeb (sold to Alibaba in 2014). Lei Jun's proven track record and extensive experience in software, e-commerce, investment and mobile internet services provide clear leadership and strong commitment to our mission and execution.

Lei Jun's iconic leadership has been recognized globally. In 2013, Lei Jun was awarded the "China Economic Figures of the Year" award by China Central Television (CCTV). In 2015, Lei Jun was the only Chinese entrepreneur among the "World's 100 Most Influential People of the Year" selected by TIME Magazine. He also received the "Asia Game Changer Award" from the Asia Society in the same year. In November 2017, Lei Jun was elected Vice Chairman of the All-China Federation of Industry and Commerce. In February 2018, he was also elected Vice President of the China Association for Quality.

Lei Jun started Xiaomi with the Co-founders, who are all engineers or designers with decades of hardware and software development experience. They worked at prominent global technology companies, including Google, Microsoft and Motorola, before starting Xiaomi. Our Founders have been instrumental in instilling a genuinely transparent, efficient, inclusive and accessible corporate culture. This culture is the powerful driving force behind our collective passion to deliver advancements in innovation, quality, design and user experience across all of our products and services.

2. Passionate Users

Leveraging our innovative, high-quality, well-designed technology products and services focused on exceptional user experience as well as our unique business model, we have amassed a large and rapidly growing user base. In March 2018, we had approximately 190 million MAUs on our MIUI.

Our users are highly engaged and spend a significant amount of time interacting within the Xiaomi platform. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. We believe our users have a high level of trust in our brand.

Within our user base, we have a highly dedicated and intensely loyal group of users who have nicknamed themselves Mi Fans. These fans are very passionate about Xiaomi and own many of our products. For example, as of March 31, 2018, over 1.4 million users had more than five connected Xiaomi products (excluding smartphones and laptops). Furthermore, our Mi Fans actively follow and support the latest developments of our Company. This extends outside mainland China to places such as India, Indonesia and Spain, where thousands of avid Mi Fans queued up for hours outside each new flagship store on the opening day. In addition, we also benefit from our enthusiastic Mi Fans through their passionate word-of-mouth marketing, which minimizes our sales and marketing costs, and their constructive product feedback, which helps us constantly improve our products and services. Our users are very vocal on our MIUI forum, which had over nine million MAUs in March 2018. As of March 31, 2018, our users had collectively generated approximately 250 million posts on our MIUI forum since we launched it in August 2010.

3. Triathlon Business Model

We believe the three components of our unique business model are complementary to each other, creating robust barriers to entry for potential competitors and enabling us to create a sustainable business model that cannot be easily replicated by competitors. The seamless integration of our smart hardware products, new retail and internet services has led to powerful network effects across our

platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we will deliver better and richer user experiences, which will, in turn, attract more users to our products and services.

Smartphones and IoT products form a valuable platform to attract new users. We are able to acquire users at a positive margin through the sale of our innovative, high-quality, well-designed and user-centric hardware products, which serve as the gateway to providing our users with internet services. Our killer products also bring additional traffic to our retail channels. In addition, our omni-channel retail strategy, comprised of highly efficient and complementary online and offline retail channels, enables us to sell our products at highly accessible prices, increasing our reach and depth of product distribution. This results in rapid expansion of our user base across different geographies. Having amassed a large and engaged user base through our innovative hardware and efficient new retail, we monetize our users through our vast platform of internet services, which include our proprietary apps.

Leveraging our innovative hardware portfolio, superior user experience and efficient new retail, we have accumulated a large active and loyal user base, which we can effectively monetize through advertising and internet value-added services. This has resulted in average internet services revenue per user growing from RMB28.9 in 2015 to RMB57.9 in 2017. Our internet services are a key contributor for our business. In 2017, 8.6% and 39.3% of our revenues and gross profit came from internet services, respectively.

As we leverage our economies of scale and continue to grow our business, we have been able to achieve increasing profit and profitability. During our Track Record Period, our revenue grew from RMB66.8 billion in 2015 to RMB114.6 billion in 2017. We had an adjusted non-IFRS profit of RMB5.4 billion in 2017, compared to an adjusted non-IFRS loss of RMB0.3 billion in 2015.

4. Innovation and Design

We have amassed a strong track record in innovation and design. We leverage our in-house design capabilities and continuous feedback from our users and Mi Fans to develop high-quality products and services with advanced features and compelling aesthetic designs that are very user friendly.

For example, our Mi MIX smartphone model is distinguished by its pioneering ceramic unibody and bezel-less display. Mi MIX and Mi MIX 2 were the first smartphones added to the collection of the George Pompidou National Arts and Cultural Center in France, according to iResearch. As of March 31, 2018, we have received more than 200 industrial design awards for our smartphones and IoT products. We were awarded the Red Dot: Best of the Best award, the iF Gold award, the International Design Excellence Award (IDEA) Gold award and the Good Design Gold award. These awards are further testaments to our industry-leading design capabilities and craftsmanship.

We have also achieved numerous technological breakthroughs. In 2017, we launched our Surge S1 SoC and incorporated them into our Mi 5C series, leading Xiaomi to become one of the only four current global smartphone companies to launch a proprietary SoC, according to iResearch. As of March 31, 2018, our patent portfolio included over 16,000 pending patent applications and over 7,000 issued patents, among which approximately 50% were granted overseas.

Furthermore, we developed MIUI, our very own operating system built on the Android kernel. We have constantly improved the MIUI platform by incorporating direct feedback from our Mi Fans

and updating the MIUI developer version on a weekly basis since August 2010. In addition, we have a proven ability of developing killer apps. In March 2018, we had 38 apps with more than 10 million MAU and 18 apps with more than 50 million MAU, including Mi App Store, Mi Browser, Mi Music and Mi Video.

5. Efficiency

We operate with a relentless focus on operational efficiency in order to realize overall cost savings, which we return to our users.

Our online sales channels are highly efficient, as evidenced by their low distribution costs. Leveraging the growth of e-commerce, we are able to capture more customers who prefer to purchase through our online channels. Mi Store and Youpin are our self-owned direct e-commerce platforms. We are number one in terms of smartphone unit shipments online in both mainland China and India in the fourth quarter of 2017, according to IDC. In particular, Mi Store was the third-largest 3C and home appliances direct sales online retail platform in mainland China by GMV in 2017, according to iResearch. We were also the third-largest direct sales online retail platform in India by GMV in 2017, according to the same source. We cooperate with third-party e-commerce platforms such as JD.com, Tmall, Flipkart, TVS Electronics and Amazon to leverage their localized sales and marketing expertise, logistics and payment infrastructure. We have been consistently ranked first in smartphone sales during Tmall's Annual Singles' Day shopping festival since we first participated in 2013.

In addition to our online channels, we have built a complementary offline retail network. Our offline retail network is comprised of our self-operated Mi Home retail stores as well as third-party offline retail partners whom we supply our products directly. As of March 31, 2018, we had 331 Mi Home retail stores in mainland China, which has increased from 51 as of December 31, 2016. Our Mi Home retail stores provide users an immersive opportunity to experience our products first-hand, which increases their propensity to purchase our products offline and online. Our superior offline experience also improves user loyalty and satisfaction.

We have approached our offline retail strategy with a similar efficiency level as our online distribution, achieving an average of approximately RMB240,000 in annual sales per square meter in our self-operated Mi Home retail stores in 2017, which is the second highest globally among retail store chains, according to iResearch. We will continue to maintain our efficiency in offline retail and promote accessibility by supplying our hardware products directly to our offline endpoint retail partners, thereby eliminating redundant price mark-ups between distribution layers.

Our operational efficiency also extends to our supply chain costs. Our economies of scale allow us to increase our leverage with our assembly and component third party partners, which in turn allows us to benefit from more beneficial pricing terms and optimize our cost structure.

6. Ecosystem

We have built an extensive ecosystem through the broad range of technology products and services that we have developed in-house or in collaboration with our ecosystem partners.

We have invested in or incubated over 210 companies as of March 31, 2018, including more than 90 companies that are focused on the development of smart hardware and lifestyle products, to

enhance our ecosystem. Many of our investments have since become very successful. For example, the number one powerbank, air purifier and electric scooter companies globally, and the number one smart wearable company in mainland China by 2017 unit shipments, according to iResearch, are companies that we invested in. We identify promising startups and founders that share the same core values as us and support them with our brand, capital, supply chain, product design and management expertise, as well as access to our highly efficient online and offline retail network. This strategy has allowed us to build the largest consumer IoT platform globally as of December 2017 in terms of the number of connected devices (excluding smartphones and laptops), according to iResearch. As of March 2018, we had over 100 million connected devices (excluding smartphones and laptops), all of which are connected to our platform. We have made investments in other strategic areas in the mobile internet space.

Strategic investments are a core part of our corporate development strategy. Our investment strategy is (i) to deepen strategic cooperation with partners through investing and becoming active shareholders and (ii) to apply financial investment rigor and invest in only our best-in-class partners. Furthermore, we believe that our investments enable us to efficiently expand our ecosystem. Through the sharing of resources, we are able to accelerate the time to market for innovative product and service offerings without sacrificing our commitment to provide high quality, great design, and an exceptional experience to users.

Our strategic investments have not only allowed us to forge close partnerships with investee companies to create synergies across our ecosystem, but have also provided us with stable and recurring investment income.

7. Cloud, big data and AI capabilities

We believe that the sheer amount of unique consumer and behavioral data created by our platform gives us a massive advantage in the field of big data and AI. Our cloud services enable users to connect to our smart hardware, online retail and internet services through a single unified Xiaomi account, thereby allowing us to capture sequential data throughout our platform. For example, the extensive breadth of our connected smart hardware portfolio, which includes our leading IoT platform of over 100 million connected devices (excluding smartphones and laptops), places our platform at the center of the daily lives of our users; our retail channels give us an in-depth understanding of the purchasing habits of our users; and our users express their online preferences though our apps and services. Our unified Xiaomi account service, launched in 2012, allows our users to access cloud services, shop online, enjoy content, and utilize the many services we provide. With prior user consent, we have accumulated more than 230PB of proprietary data on our cloud services as of March 31, 2018. Such data is stored in compliance with strict data privacy standards and data security requirements we have in place.

We leverage our deep understanding of our users' daily lives to further improve our user experience, customize to local markets and create more innovative technology products and services. Since 2012, we have been focusing on developing our deep learning and AI technologies, which we have incorporated into our products and services. For example, our AI technology has enabled us to improve the image quality of pictures taken by our smartphones, optimize the image search and notification functions of our MIUI operating system, and develop proprietary technologies such as facial recognition capabilities in video footages. We have also begun to develop AI enabled user-facing products to meet the ever changing needs of our users and enhance their experience.

Since 2017, Xiaomi and its ecosystem partners have launched AI enabled products, such as Mi MIX 2S, Mi TV, Mi Box and Mi AI Speaker, in 13 verticals. These products contain user-facing features that are aimed at improving communication and interaction, including our AI voice assistant and AI content recommendation. Our users have provided highly positive responses to these products. Our AI assistant has been installed on more than 23 million smart devices. As of March 31, 2018, our AI assistant can control 118 product models within our platform with applications covering content consumption, productivity tools and other forms of interaction.

8. Global

We have successfully expanded overseas. Our Xiaomi brand is identified as one of the most recognized global consumer electronic brands, according to iResearch. We are present in 74 countries and regions across the world as of March 31, 2018. We are among the top five in smartphone unit shipments in 15 global markets in the fourth quarter of 2017, according to IDC.

Our unique triathlon business model is not only successful in mainland China, but has been tested and replicated effectively on a global basis. In India, we became the number one smartphone company only three and a half years after officially entering the market, with a 26.8% market share in the fourth quarter of 2017, according to IDC. Xiaomi India is also number one in terms of smartphone unit shipments online in India in the fourth quarter of 2017, according to IDC, and is the third largest direct sales online retail platform in India by GMV in 2017, according to iResearch. We have a local product and R&D team, and we customize our products and services for India's local conditions, for example by adding dual pyrolytic graphite sheets designed specifically for our smartphones in order to decrease the phone temperature and adjusting our chargers for our smartphones to handle India's fluctuations in power supply. Our international success is proof that our business model can be extended to many other countries and regions outside of mainland China.

In 2017, our international sales reached RMB32.1 billion, or 28.0% of our total revenue, compared to RMB9.1 billion in 2016.

OUR STRATEGIES

1. Unwavering focus on innovation, quality, design and user experience

We will continue to pursue artisanal craftsmanship in all our products. We will relentlessly focus on technological innovation, quality and design to drive high-quality user experience and grow our loyal and engaged user base. Going forward, we will continue to invest in research and development and prudently manage our high-quality human capital to maintain our leadership position in innovation, quality, design and user experience.

2. Maintain relentless efficiency

We will continue to enhance our highly efficient retail channels, boost supply chain cost efficiencies and drive distribution efficiencies to ensure the continued price accessibility of our products and services to grow our user base. We will continue to do these both online and offline.

3. Expand killer product offerings

We will continue to develop and selectively launch new killer products, including new kinds of smartphones, IoT and lifestyle products, and internet services, to cater to the various needs of our

users. We believe that developing and launching new killer products is in our DNA, and this capability will continue to be extended through our ecosystem.

4. Enrich internet services

We will develop and invest in diverse internet services to further enhance user experience, engagement and retention. We believe that internet services will enable us to continue to grow our user base and increase user monetization, which will boost our financial growth and profitability. Furthermore, we will promote our cloud computing services to our users. We intend to leverage our advanced big data and artificial intelligence capabilities to analyze our proprietary data to improve user experience via smarter and more customized services in compliance with our strict data privacy policies.

5. Invest in and expand our ecosystem

We will continue to identify, invest in and incubate promising companies, primarily in the fields of IoT and mobile internet services, in order to further expand our ecosystem. We aspire to strengthen our ecosystem partners and enable them to grow rapidly and develop innovative, high-quality, well-designed products and services with exceptional user experience for our users. By expanding our ecosystem, we can accelerate the rollout of new complementary products and services, enabling us to grow our user base in mainland China and globally.

6. Broaden international expansion

We intend to leverage our strong execution capabilities to extend and localize our unique business model internationally in order to grow our user base and increase user monetization. For example, we expect to leverage our number one position in the Indian smartphone market to expand and monetize our user base. Outside of mainland China and India, we will focus on significantly expanding our operations globally in order to capture the promising growth opportunities ahead of us.

Our Business

Our Company is built on innovation and efficiency. As a company founded by engineers and designers, we embrace a culture of bold innovation to push the boundaries of what technology can offer. A spirit of innovation permeates our Company. We are also a company which deeply believes in efficiency. We firmly believe we need to be strictly disciplined in all aspects of our operations and we strive to achieve cost savings to deliver value back to our users.

Our unique and powerful "triathlon" business model comprises three synergistic pillars of growth—(i) innovative, high-quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail allowing for our products to be priced accessibly and (iii) engaging internet services.

During the Track Record Period, we generated revenues from four business segments: smartphones, IoT and lifestyle products, internet services and others. The following table sets forth a breakdown of revenue contribution from these four business segments both as an absolute amount and as a percentage of total revenues for the years indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Smartphones	53,715,410	80.4	48,764,139	71.3	80,563,594	70.3
IoT and lifestyle products	8,690,563	13.0	12,415,438	18.1	23,447,823	20.5
Internet services	3,239,454	4.9	6,537,769	9.6	9,896,389	8.6
Others	1,165,831	1.7	716,815	1.0	716,936	0.6
Total	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0

Hardware

In the first quarter of 2018, our product portfolio included approximately 1,600 SKUs of products sold in mainland China that were developed in-house or in collaboration with our ecosystem partners. We offer our full line-up of products to consumers in mainland China. In the rest of the world, the availability of our hardware products varies by country and region.

Diverse products. We design and develop a suite of core in-house products, including smartphones, laptops, smart TVs, AI speakers and smart routers. We also curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies are focused on the development of smart hardware and lifestyle products as of March 31, 2018. In collaboration with us and centered around our users, our ecosystem partners produce a wide range of IoT and lifestyle products, such as smart home appliances, wearable products and transportation devices. Regardless of whether the products are designed and produced in-house or in collaboration with our ecosystem partners, the products share the same philosophy and are distinguished by a unique combination of innovative technologies, high quality, aesthetically pleasing designs, user-oriented features and price accessibility.

Innovative technologies and high-quality, artisanal craftsmanship. We relentlessly pursue the latest technological innovations in the industry for each of our products. For example, we introduced the first bezel-less smartphone, which incorporated various innovative technologies such as using vibrating ceramic acoustic techniques to replace speakers and using ultrasonic proximity sensors to replace infra-red proximity sensors. We believe our brand series, primarily consisting of Mi, Redmi, Mi Home and Youpin, are synonymous with high quality and aesthetically pleasing products across all categories. We believe our users have confidence that they can expect the same high level of quality and artisanal craftsmanship from all our products. To reinforce this brand identity, we only work with hardware and lifestyle products partners who share our product and design philosophy.

As of March 31, 2018, we have received over 200 industrial design awards from reputable international and Chinese associations and organizations recognizing the exceptional designs of our products, including the Red Dot: Best of the Best award, the iF Gold award, the International Design Excellence Award (IDEA) Gold award and the Good Design Gold award. According to iResearch, our Mi MIX and Mi MIX 2 were the first smartphones added to the collection of the George

Pompidou National Arts and Cultural Center in France. Our Mi MIX was also added to the world-renowned collection of the Finnish National Design Museum in Helsinki and the permanent collection of the International Design Museum, Munich.

Exceptional user experience. Our smartphones and smart TVs are designed for optimal integration with our MIUI operating system. Our IoT products are seamlessly integrated with our own Mi Home mobile app, which allows us to tap into a wide variety of application scenarios. For example, our proprietary AI assistant can control 118 product models on our platform as of March 31, 2018, including smart lamps, Mi TVs, Mi Air Purifiers and a variety of other connected smart home products. Mi Bands can automatically turn off smart lamps when they sense a user has fallen asleep. Users can set our Mi Air Purifiers to automatically place orders for new filters through our Mi Home mobile app when the purifiers detect that existing filters need to be replaced.

***Over 90* companies focused on the development of smart hardware and lifestyle products**

In order to achieve our mission, we pledge to our existing and potential users: starting in 2018, Xiaomi's hardware business (including smartphones, IoT and lifestyle products) will have an overall net profit margin that will not exceed 5% per year. If the net margin exceeds 5%, we will return the excess above 5% to our users.

In the following sections, the suggested retail prices cited are suggested retail prices in mainland China. For markets outside of mainland China, suggested retail prices are similar to those in mainland China but are adjusted for local markets.

Core In-House Products

Smartphones

In the fourth quarter of 2017, we ranked number four globally in terms of smartphone unit shipments and number one in India in terms of smartphone unit shipments, according to IDC. To cater to our diverse user base, we have smartphone models available in each of the following five price ranges: (i) RMB3,000 and above, (ii) RMB2,000 to RMB2,999, (iii) RMB1,300 to RMB1,999, (iv) RMB800 to RMB1,299 and (v) RMB799 and below. All of our smartphones feature accessible prices at the time of launch versus those of comparable products. Our smartphones operate on MIUI, our proprietary operating system built on the Android kernel.

Premium Flagship (RMB3,000 and above)	Mi MIX 2S	Mi MIX 2	
Flagship (RMB2,000 to RMB2,999)	Mi 6	Mi Note 3	
Upper Mid-range (RMB1,300 to RMB1,999)	Mi Max 2	Mi 5C	Mi 5X/Mi A1
Mid-range (RMB800 to RMB1,299)	Redmi Note 5/5 Pro	Redmi 5 Plus	
Entry Level (RMB799 and below)	Redmi 5/5A	Redmi Note 5A/Redmi Y1	

Mi MIX 2S

Mi MIX 2

Mi 6

Mi Note 3

(i) Premium Flagship: RMB3,000 and above

Mi MIX 2S. We launched our newest premium flagship smartphone Mi MIX 2S in March 2018. It continues the tradition of this top-of-the-line smartphone product line with a full screen display and curved ceramic body. According to iResearch, we are the first Chinese company to launch smartphones featuring the latest Qualcomm Snapdragon 845 processor. This device has up to 8GB RAM and 256GB of storage, an AI-powered dual camera with a 1.4µm-pixel sensor, Dual Pixel Autofocus and a number of other cutting-edge technologies. This phone has a built-in AI assistant and supports wireless charging, face unlock, multi-functional NFC and 43 global bands.

Mi MIX 2. Introduced in September 2017, Mi MIX 2 is our multiple award-winning smartphone with a full screen display and ceramic unibody, designed in collaboration with Philippe Starck. The

phone is powered by a Qualcomm Snapdragon 835 processor and utilizes various cutting-edge technologies for its 5.99" display: Chip-On-Film technology that reduces the bottom bezel size; customized rounded corners that enable a larger field of vision; a customized minimized front camera module; and an ultrasonic proximity sensor for the detection of objects coming close to the screen. As a result, the phone is smaller than the typical smartphone with a 5.5" display.

(ii) Flagship: RMB2,000 to RMB2,999

Mi 6. Mi 6 is a flagship smartphone featuring the Qualcomm Snapdragon 835 processor, up to 6GB of RAM, a 5.15" display with eye care display mode, a dual-camera setup, a 3,350mAh battery, and a four-sided curved glass body. The dual-camera setup on Mi 6 comes with wide angle and telephoto lenses, supporting 2x optical zoom and 10x digital zoom. It is also equipped with four-axis OIS, reducing the effect of handshake or motion, and enabling images and videos to remain sharp. Mi 6 was introduced in April 2017.

Mi Note 3. Mi Note 3 is a smartphone introduced in September 2017 that features a dual-camera setup with wide angle and telephoto lenses, enabling users to shoot beautiful portraits with bokeh effect. Its large 2μm-pixel sensor enables the front camera to capture light better with less image noise. In addition, Mi Note 3 comes equipped with an AI-based facial recognition unlocking function. Mi Note 3 packs a 3,500mAh battery and a 5.5" display.

(iii) Upper Mid-range: RMB1,300 to RMB1,999

Mi Max 2. Mi Max 2 is a "phablet," straddling the size format between smartphones and tablets. It features a large 6.44" display and a massive two-day 5,300mAh battery. The large immersive display enables a better media and gaming experience. The split screen mode allows the user to view two different types of content on one screen, such as watching a video while chatting. Mi Max 2 has a full metal unibody and rounded edges for ease of one-hand use. Mi Max 2 was introduced in May 2017.

Mi 5C. Mi 5C is our first smartphone powered by Surge S1, an eight-core SoC designed and developed in-house. Surge S1 uses a high-performance ARM Cortex-A53 processor with a so-called big.LITTLE design, incorporating four 2.2GHz cores and four 1.4Ghz cores. Mi 5C features a 5.15" display and weighs only 135g. The large 12MP camera with 1.25μm pixels enables excellent photo quality under low light conditions. Mi 5C was introduced in February 2017. We are one of only four current smartphone companies in the world with the technological expertise to design proprietary smartphone SoCs, according to iResearch.

Mi 5X/Mi A1.

Mi 5X is a smartphone featuring a dual camera with wide angle and telephoto lenses. The two lenses allow Mi 5X to calculate and differentiate foreground and background objects, respectively, which creates a depth-of-field effect that typically requires a DSLR camera to achieve and allows users to capture beautiful portrait photos with bokeh effect. Mi 5X features a 5.5" display, all metal unibody design and a large 3,080mAh battery. Mi 5X was introduced in July 2017.

Mi A1 is the global version of Mi 5X that was launched in collaboration with Google. This device features an optical zoom dual-camera setup, and offers exciting functionalities similar to Mi 5X. Mi A1 was first introduced in September 2017 in India and subsequently rolled out to global markets.

(iv) Mid-range: RMB800 to RMB1,299

Redmi Note 5/5 Pro. Redmi Note 5 is a mid-range smartphone featuring flagship-level photography capabilities. With a dual camera equipped with a large 1.4μm-pixel sensor, its AI-based camera features and an LED selfie light on its front camera, Redmi Note 5 is a powerful device that is able to take high-quality photos anywhere at any time. According to iResearch, this phone was the first in the world to feature the Qualcomm Snapdragon 636 processor with 14nm technology. It packs a 18:9 full screen display and a large 4,000 mAh battery. Redmi Note 5 was first introduced as Redmi Note 5 Pro in India in February 2018, then released in mainland China as Redmi Note 5 in March 2018.

Redmi 5 Plus. Redmi 5 Plus brings our full-screen display innovations to the under-RMB1,000 smartphone. It features a 5.99" display with an 18:9 aspect ratio, a Qualcomm Snapdragon 625 processor and a 4,000mAh battery. Redmi 5 Plus also comes equipped with a camera sporting a large 1.25μm-pixel sensor and soft lighting effect for selfies using its front camera. Redmi 5 Plus was introduced in December 2017.

(v) Entry level: RMB799 and below

Redmi 5/5A. Redmi 5 and Redmi 5A are accessible smartphones that meet most of our users' daily needs. Redmi 5 features a 5.7" display, a Qualcomm Snapdragon 450 processor and a 3,300mAh battery. Redmi 5A weighs only 137g and sports a 5" screen with eye care display mode, a 13 MP camera, a Qualcomm Snapdragon 425 processor, and dual-SIM slots. Redmi 5 was introduced in December 2017, and Redmi 5A was introduced in October 2017.

Redmi Note 5A/Redmi Y1. Redmi Note 5A Prime is a smartphone equipped with a 16MP front camera and an independent selfie light, which simulates the effect of natural light resulting in more beautiful selfies with clearer facial features, brighter skin tone and more expressive eyes. The phone features a 5.5" display, a fingerprint sensor, a Qualcomm Snapdragon 435 processor, and a dedicated microSD card slot in addition to dual-SIM slots. Redmi Note 5A is powered by a Qualcomm Snapdragon 425 processor, has dual-SIM slots and a dedicated microSD card slot. Redmi Note 5A Prime/5A were both introduced in mainland China in August 2017, and they were launched in India as Redmi Y1 Lite and Redmi Y1 in November 2017.

Smart TVs

We offer a comprehensive selection of smart TVs in different sizes at the best price-to-specification ratio among major comparable products, according to iResearch. Our smart TV products include our premium Mi TV 4, as well as our Mi TV 4A/4C. All of our TVs are equipped with PatchWall, our MIUI-based proprietary AI TV operating system, which understands user preference and can intelligently classify content. In December 2017, our smart TVs on average processed 84 million broadcasts per day. Our smart TVs have shown strong sales volume growth, with 44% and 493% year-over-year growth in 2017 and the first quarter of 2018, respectively. In addition to controlling TV, PatchWall allows users to voice control a myriad of compatible smart-home devices. We also offer Mi Box, a content streaming device and gaming device, with a suggested retail price starting from RMB199. In March 2018, we had approximately 5 million and over 8 million MAUs on our Mi TV and Mi Box, respectively.

According to iResearch, our Mi Box ranked number one in mainland China by unit shipments in 2017, and our smart TVs ranked number three in mainland China by unit shipments in February

2018 and top ten globally by unit shipments in the same month. In addition, during the National Day Golden Week of 2017, four of the top five best-selling TV models sold online in mainland China were from Xiaomi, according to iResearch.

Mi TV 4

Mi TV 4A/4C

Mi TV 4. Mi TV 4 is our 4K HDR smart TV series that comes in three sizes—49", 55" and 65". According to iResearch, Mi TV 4 was the thinnest LED TV in the world at the time of launch, boasting a highly slim design that measures only 4.9mm, with a frameless display design for a more immersive viewing experience. Featuring a large 4K LED display with support for HDR10 content, Mi TV 4 is able to reflect more details and richer colors. In addition, Mi TV 4 has a dual-speaker setup boasting Dolby and DTS audio for a truly cinematic experience. Suggested Mi TV 4 retail price ranges between RMB3,399 to RMB9,999.

Mi TV 4A/4C. Mi TV 4A comes in seven sizes—32", 40", 43", 49", 50", 55" and 65". The 32", 40", 43" and 49" models are equipped with full HD displays, and the 50", 55" and 65" models are equipped with 4K displays. Mi TV 4C is our super-thin bezel smart TV series that comes in two sizes—43" and 55". Both models feature super-thin bezels and a glossy piano-like finish, which greatly enhance the visual effects. Suggested retail price of Mi TV 4A and Mi TV 4C ranges between RMB999 to RMB4,799 and RMB1,599 to RMB2,899, respectively.

Laptops

We design and develop our laptops with a focus on delivering lightweight, portable products equipped with comprehensive features to offer the best quality and price among all peer products with similar specifications. Our laptop products consist of three lines—Mi Notebook Air, Mi Notebook Pro and Mi Gaming Laptop. Among the latest models, Mi Notebook Air 12.5" starts from RMB3,599, Mi Notebook Air 13.3" starts from RMB4,599, Mi Notebook Pro 15.6" starts from RMB5,599, and Mi Gaming Laptop 15.6" starts from RMB5,999. Our laptops offer the best price-to-specification ratio among major comparable products, according to iResearch.

Mi Notebook Air

Mi Notebook Pro

Mi Gaming Laptop

Mi Notebook Air

Mi Notebook Air offers uncompromising performance in an ultra-light package. The Air comes in two sizes—12.5" and 13.3". Both versions are equipped with 1C fast-charging feature. The 12.5" model weighs only 1.07kg and comes with a high-density battery providing up to 9.5 hours of online video playback. The 13.3" model weighs 1.30kg and is equipped with an Intel Core i5 or i7 processor, Intel HD Graphics 620, NVIDIA GeForce 940MX or MX 150 graphics card, up to 8GB RAM, up to 256GB SSD, and a high-density battery providing up to 8 hours of online video playback. Both 12.5" and 13.3" models feature a minimalistic aluminum case, a full-size backlit keyboard, a multi-touch touchpad and a full HD anti-glare screen with wide viewing angles.

Mi Notebook Pro

Mi Notebook Pro is a powerful multimedia notebook that weighs less than 2kg. It features the latest Intel Core i5 or i7 CPU, NVIDIA MX150 graphics, a full-size backlit keyboard with 19.5mm of key distance for comfortable typing, an all metal body with magnesium alloy frame for stronger compression resistance, a 1C fast-charging feature and seven mainstream expansion interfaces. It also features a multi-touch touchpad and a 15.6" full HD anti-glare screen with wide viewing angles.

Mi Gaming Laptop

Equipped with Intel Core i7 processors, Mi Gaming Laptop 15.6" delivers powerful performance for users' work and entertainment needs. It has a minimalist design, along with a keyboard that supports 16 million colors over four zones, and anti-ghosting with 30-key rollover for precise and accurate gaming input. Five programmable keys are located on the left side for quick access to important functions. To enhance performance during particularly long gaming sessions, it is equipped with large heat pipes, a 12V cooling fan and four fan outlets for effective heat dissipation.

AI Speakers

In 2017, we ranked number one in mainland China by AI speaker unit shipments, according to iResearch. Our AI speakers feature high-end performance without compromising design and portability, and they offer the best price-to-specification ratio among major comparable products, according to iResearch. Users can connect our voice-controlled AI speakers with our other smart hardware products via Wi-Fi and program customized voice commands. Our AI speakers include two models, Mi AI Speaker at a suggested retail price of RMB299 and Mi AI Speaker Mini at a suggested retail price of RMB169. As such, our AI speakers are the most competitive in terms of price and quality. The prices for other comparable AI speakers are typically in a range of RMB699 to RMB1,000 for Mi AI Speaker and RMB299 for Mi AI Speaker Mini. In December 2017, our AI speakers processed 3.4 million interactions on average per day. In March 2018, our users also spent an average of approximately one hour per day on our AI speakers.

Mi AI Speaker

Mi AI Speaker Mini

Mi AI Speaker

Mi AI Speaker features our voice-controlled intelligent AI assistant, which currently responds to user commands in Chinese. Mi AI Speaker is a high-quality speaker system that comes with an array of six microphones to detect voice commands from all directions. With voice commands, users can tune in to internet radio stations, enjoy music from streaming services and listen to audio books. Mi AI Speaker also acts as a personal assistant, delivering information such as weather, traffic condition, personal calendar reminders, and the latest news. In addition, Mi AI Speaker serves as a smart home assistant, allowing users to program customized voice commands in order to seamlessly control their smart home devices. Certain "non-smart" home devices can also be controlled by Mi AI Speaker through our products, such as Mi Smart Plug and Mi Smart Power Strip. Users can train the AI assistant to make it a better daily companion through pre-set queries and answers.

Our proprietary voice-controlled AI assistant is also installed in smartphones, Mi TVs and other devices. As of December 31, 2017 and March 31, 2018, we had over 7 million and 23 million devices with our AI assistant installed, respectively. As of March 31, 2018, our proprietary AI assistant can control 118 product models, including Mi Box, Mi Robot Vacuum Cleaner, Mi Induction Heating Rice Cooker, Mi Air Purifier, Mi Electric Fan and smart lamps.

Mi AI Speaker Mini

Mi AI Speaker Mini is a mini version of Mi AI Speaker, featuring a voice-controlled, AI-powered digital personal assistant that can be used to control the several products under our smart home lineup. It is a portable assistant with compact design.

Smart Routers

Our smart routers offer the best price-to-specification ratio among major comparable products, according to iResearch. Current models of our Wi-Fi devices include Mi Router 3 (RMB149), 3C (RMB99), 3G (RMB249), 3A (RMB139), Mi Router Pro (RMB499) and Mi Router HD (RMB1,199).

Mi Router Pro and Mi Router HD are designed to be smart devices that meet all of a household's network needs. They come equipped with 1 or 2 TB hard-drives. Both Pro and HD models feature a metal case for enhanced stability and 4x4 antennas for better wireless coverage. With wireless transmission rates going up to 2,533Mbps and MU-MIMO support, our users can receive stable, high-speed connections even with multiple devices connected simultaneously.

Mi Router 3, 3C, 3G and 3A are easy-to-use Wi-Fi routers that ensure a stable wireless network experience. Mi Router 3 features 128MB of ROM and 128MB of memory. Mi Router 3A features

enhanced antennas. Mi Router 3G features a dual-core processor, 128MB of ROM, 256MB of memory and a USB 3.0 port. All four models are equipped with four antennas and can be controlled via the Mi Wi-Fi app. The powerful Mi Wi-Fi app features rich functionalities, such as enhanced network security and parental control.

Products Produced in Collaboration with Our Ecosystem Partners

We work with our ecosystem partners to design and develop a rich portfolio of smart hardware products. We meet our users' daily needs with products integrated through our internet platform in order to provide them with a digital lifestyle. Regardless of whether the products are designed and produced in-house or in collaboration with our ecosystem partners, the products share the same philosophy and are distinguished by a unique combination of innovative technologies, high quality, aesthetically pleasing designs, user-oriented features and price accessibility.

The following table sets forth a sample comparison of the prices of our selected products against those of our major competitors:

Selected Products	Suggested Price Range (RMB)	Indicative Price Range of Major Competitors (RMB)
Air purifiers	379 – 1,999	2,000 – 10,000
Mi Band 2	149	299 – 699
Robot vacuum cleaner	1,699	3,000 – 8,000
Water purifier	1,499 – 1,999	3,000 – 4,000
Suitcase	299 – 1,999	299 – 5,000
Induction heating rice cookers	399 – 999	3,000 – 6,000
Laser projector	9,999	29,999 – 132,000
Folding electric bicycle	2,999	6,999 – 8,999
Drone	2,999	4,000 – 7,000

Our products produced in collaboration with our ecosystem partners are primarily divided into three categories, including mobile peripherals, smart devices and lifestyle products.

Selected Mobile Peripheral Products

Power Bank

We were number one in terms of power bank unit shipments globally in 2017, according to iResearch. Our Mi Power Bank comes in various capacities, such as 20,000mAh, 10,000mAh and 5,000mAh. For example, the 10,000mAh Mi Power Bank Pro is sleek and slim, and supports Type-C charging and two-way fast charging. It is able to fully charge a 3000mAh smartphone 2.4 times in a single charge.

Headphones

We offer four models of classic in-ear headphones priced from RMB29 to RMB149, three models of Bluetooth in-ear headphones priced from RMB59 to RMB169, one model of noise-canceling in-ear headphones priced at RMB299 and two models of over-ear headphones priced at RMB199 and RMB499. All these headphones offer superior sound quality, aesthetically pleasing design and comfortable wearing experience.

Selected Smart Hardware Products

Air Purifiers

We were number one in terms of air purifier unit shipments globally in 2017, according to iResearch. In December 2017, our air purifiers cleaned 1.5 billion cubic meters on average per day. During the annual Singles' Day shopping festival in 2017, our air purifiers were number one in terms of unit shipments in the air purifier category across major e-commerce platforms including Tmall, JD.com and Suning, according to iResearch. The current models of the air purifiers supplied by our ecosystem partners include Mi Air Purifier 2 (RMB699), 2S (RMB899), Pro (RMB1,499), MAX (RMB1,999) and Mi Car Air Purifier (RMB379).

Mi Air Purifier 2 has a compact design with a single motor and a dual fan design. It has a CADR (Clean Air Delivery Rate) of 310m^3/h and is suitable for an area of 21m^2 to 37m^2. Mi Air Purifier 2S is a premium model that features an OLED display showing PM2.5 level, temperature and humidity, as well as a laser sensor which assists in accurate detection of particles as small as 0.3μm in size. Mi Air Purifier Pro features an OLED display and an optimized air flow path and pressure system. It is capable of 500m^3/h CADR covering an indoor area of 60m^2. Mi Air Purifier MAX uses a dual-inlet system designed with increased area for airflow, resulting in more powerful performance and is capable of 1,000m^3/h clean air delivery rate for an indoor area of up to 120m^2. All of these air purifiers can be connected via Wi-Fi to the Mi Home app.

Mi Car Air Purifier is designed specifically for in-car use. It has a CADR of 60m^3/h, which purifies the air in a normal car of about 3m^3 in approximately three minutes. It supports smartphone control via Bluetooth.

Fitness Band

We were number one in mainland China and number two globally by fitness band unit shipments in 2017, according to iResearch. Our fitness bands recorded 37 billion steps on average per day in December 2017. Our Mi Band 2 is a smart fitness band with an OLED display and tracks a wide range of biometrics data, such as steps, heart rate, sleep duration and quality. It gently nudges the wearer to take a break when he or she has been sitting still for too long. The band also synchronizes with the "Mi Fit" mobile app to allow users to monitor their running speed and heart rate in real time and to evaluate their sleep quality. In addition, it features vibrating alerts for incoming calls, texts and alarms and allows users to unlock an Android smartphone instantly without any passcode or fingerprint. Mi Band 2's high-density lithium-polymer battery could generally last more than 20 days on one charge under standard use.

Robot Vacuum Cleaner

In December 2017, our robot vacuum cleaner, Mi Robot Vacuum, cleaned 7.9 million square meters on average per day. Mi Robot Vacuum is an acclaimed and highly intelligent robot priced at RMB1,699. With a Laser Distance Sensor (LDS), Mi Robot Vacuum is able to scan its surroundings 360 degrees 1,800 times per second. By employing a Simultaneous Localization and Mapping (SLAM) algorithm, Mi Robot Vacuum is able to map out how the home is laid out and calculate the best cleaning path. Equipped with 12 sensors and a host of advanced features, Mi Robot Vacuum cleans homes in a smart and efficient way. Integrated with the Mi Home app, it allows users to switch on and control Mi Robot Vacuum remotely and set regular cleaning schedules.

Scooter/Self-balancing Scooter

We shipped the most electric scooters globally in 2017, according to iResearch. During the annual Singles' Day shopping festival in 2017, Ninebot Plus was number one in terms of unit shipments in the self-balancing scooter category across major e-commerce platforms including Tmall, JD.com and Suning, according to iResearch.

Mi Electric Scooter has an award-winning design and is easy to master. It has a travel range of 30 kilometers on a single charge and weighs approximately 12.5 kilograms, and comes with features such as LED headlight and regenerative braking. Users can control Mi Electric Scooters via our Mi Home app.

Ninebot Mini, a self-balancing scooter, has a travel range of 22 kilometers on a single charge with a maximum speed of 16 kilometers per hour. It can go uphill on slopes up to 15 degrees and support up to a load of 85 kilograms. When "locked" mode is activated, the scooter will raise an alarm to notify the owner if the scooter is being moved. Ninebot Plus is an upgraded version of Ninebot Mini equipped with a strengthened magnesium alloy chassis, and is able to support a load of up to 100 kilograms, with a travel range of 35 kilometers on a single charge. It comes with a remote control that allows users to control its movement conveniently without using a smartphone within a distance of 20 meters. Ninebot Mini and Mi Ninebot Plus can be controlled by our Mi Home app.

Water Purifier

Our water purifiers filtered eight million glasses of water on average per day in December 2017. During the annual Singles' Day shopping festival in 2017, our Mi Water Purifier was number one in terms of unit shipments volume in the water purifier category across major e-commerce platforms including Tmall, JD.com and Suning, according to iResearch. Mi Water Purifier is a well-designed water purifier featuring reverse osmosis (RO) technology, which applies pressure through a RO membrane to separate purified water from tap water. It employs a four-step RO filtration process before ultimately resulting in clean purified water. With a 400-gallon high flow RO filter and an optimized water purification path that improves filtration efficiency, Mi Water Purifier is able to empower higher rate of water flow. Mi Water Purifier can be monitored via the Mi Home app, allowing users to check real-time filter effectiveness and be reminded to change filters. Users can purchase new filters simply by placing orders via the Mi Home app. Mi Water Purifiers are designed to allow users to change filters intuitively and easily.

Induction Heating Rice Cookers

Our smart induction heating rice cookers come in three variants, including 3L, 4L and the Mi Induction Heating Pressure Rice Cooker. The Mi Induction Heating Pressure Rice Cooker employs a magnetic relief valve to precisely control the pressure inside the rice cooker to 1.2 times the atmospheric pressure, corresponding to an ideal boiling point of water at 105 degrees Celsius, which results in tastier rice. It also uses electromagnetic heating technology for higher thermal efficiency. To ensure even heating and strong thermal performance, it features a gray cast iron surface that has undergone a 69-step crafting process. Mi Induction Heating Pressure Rice Cooker is priced at RMB999.

Home Security Camera

Our current models of home security cameras include Mi Home Security Camera 360° (RMB199), Mi 360° Webcam (RMB399) and Mi Home Security Camera (RMB199).

These home security cameras offer 720P or 1080P high resolution and internet connectivity for long-distance, real-time monitoring through the Mi Home app.

Laser Projector

Mi Laser Projector can project a screen as large as 150 inches and uses an ultra-short focal lens design to avoid the inconvenience of the long-distance projection needed by traditional projectors. It can be situated 5 to 50 centimeters away from the display surface, and has a high contrast ratio of 3,000:1 as well as a luminosity of 5,000 lumens. The high-tech Mi Laser Projector, powered by PatchWall, uses a compact and minimal "box" design, and comes with a built-in high quality sound system. Users can enjoy the private theater effect at home. Suggested retail price of Mi Laser Projector is RMB9,999.

Lifestyle Products

We offer high-quality and well-designed lifestyle products, including housewares and personal accessories, from our ecosystem partners through our new retail platform. These lifestyle product offerings reinforce our brand image and bring additional traffic to our platform. We carefully source and select the lifestyle products by upholding the same standards that we apply to our brand series products. These selected lifestyle products are meticulously designed and crafted with attention to detail. For example, the Mi 90 Minutes Spinner Wheel Suitcase inherits the Xiaomi minimalist design but comes with great resistance to shocks and falls because of the highly durable polycarbonates (PC) material used. Wheels on this suitcase are made out of thermoplastic elastomers (TPE) material, which makes them shockproof, elastic, and very quiet. During the annual Singles' Day shopping festival in 2017, this suitcase was number one in terms of unit shipments in the suitcase category on Tmall, according to iResearch.

IoT Developer Platform

Launched in November 2017, our IoT developer platform has enabled over 580 developers to access our platform as of March 31, 2018. Our IoT developer platform is open to not only our ecosystem partners but also to other developers who desire to connect their devices with other devices connected to our platform and ultimately reach more users through us. A developer can submit its application for connecting a device to our platform for free through our IoT developer online platform at any stage of the device's life cycle. Once a developer's device has completed our quality and compatibility test, the developer is able to enjoy our fully managed and integrated support and services as well as a wide range of basic and advanced developing capabilities, such as hardware connection, IoT modules, cloud platform and storage, app remote control, voice control and content sharing.

Value Proposition to Ecosystem partners

Minority capital investment. We invest in the success of our ecosystem partners by providing early stage capital support and obtain minority equity interests in these partners.

Incubation support. We provide incubation support, including human resources and other administrative support and assistance to our ecosystem partners in their early stages of development.

Product design and development support. We bring our renowned industrial design prowess and technological expertise to the development of ecosystem hardware products and require our partners to follow our strict design and quality protocol and standards for products associated with our brands.

Supply chain management support. Through our know-how and our relationships with raw materials and component suppliers, we assist our partners in securing quality materials on preferential terms. Furthermore, we share our expertise in operational efficiency with our partners to help them manage their production-related costs.

Brand, marketing and retail support. Through our brand recognition and efficient new retail platform, we consistently offer highly popular IoT and lifestyle products to our users at accessible price points, thereby raising the profile, industry standing and sales volume of our ecosystem partners.

New Retail

Through our new retail strategy, we closely integrate online and offline sales channels to minimize layers of middlemen, achieve greater efficiency and provide the same products at the same accessible price points to our users.

Online

Our smartphones ranked first in terms of online smartphone unit shipments in both mainland China and India in the fourth quarter of 2017, according to IDC. Leveraging our online expertise, we reach a wide group of customers across the entire e-commerce space in mainland China, in particular through our Mi Store and Youpin platforms. In 2017, we were number one on Tmall in terms of unit shipments across over 20 categories of products during Tmall's Annual Singles' Day shopping festival, according to iResearch.

During the first few years of our operations, we exclusively sold our products through our self-owned online distribution channels. Capitalizing on the growing trend of e-commerce and its distribution efficiency, we expanded our online distribution channels through cooperation with leading third-party online e-commerce partners to capture more customers. As a result, we believe we have established a strong online retail presence in our core markets. Our online approach provides significant advantages, including lower distribution costs.

Direct Online Retail

Currently our direct online retail channels include our Mi Store, our Youpin platform and our flagship store on Tmall, all of which enable us to efficiently sell our products and services to our customers at accessible price points.

Mi Store

Mi Store, available in mobile app and *Mi.com*, offers the full line-up of our products directly to our users. In mainland China, India and certain selected international markets, users can purchase our

products directly from local Mi Store apps and websites. For other international markets, Mi Store serves as the centralized platform for users to learn about our products and services. Mi Store creates a curated shopping experience for our users through personalized product recommendations and insightful product descriptions. Mi Store is the third largest 3C and home appliances direct sales online retail platform in mainland China in 2017, according to iResearch. We were the third largest direct sales online retail platform in India by GMV in 2017, according to iReseach. Our online flagship store on Tmall was number one on Tmall in terms of smartphone sales during Tmall's Annual Singles' Day shopping festival for five consecutive years from 2013 to 2017, according to iResearch.

Our Mi Store mobile app allows customers to quickly and efficiently discover, review, select and purchase our products. We strive to provide customers with a customized shopping experience through analyzing and understanding their transaction histories and browsing patterns on our mobile apps in order to increase customer stickiness and enhance cross-selling opportunities. We continuously develop additional features to enhance user experience. For example, we allow customers to add a new address via verbal inputs, and the system intelligently selects and matches the correct address from its database, saving customers time.

Youpin

Youpin is an e-commerce marketplace that we created not only to sell our Mi-branded products but also to sell high-quality products that are not associated with Xiaomi but curated and sourced by us. In the first quarter of 2018, there were over 2,700 SKUs sold on Youpin. Youpin's e-commerce platform complements our existing business model by offering a wider set of popular high-quality products. Youpin, which includes the Youpin mobile app and the Youpin.mi.com website, stands for good taste and premium quality, which is also the Chinese meaning of the name.

We distinguish ourselves from other e-commerce players through our careful selection of a limited set of SKUs within each category, focusing on products that can become "killer products." The platform currently offers more than 15 categories, including home, transportation, electronics, entertainment, apparel, sporting goods and personal care. We have strict requirements and high standards for all merchandise listed on Youpin. We offer our customers an experience of unique brand identity, premium quality and high value, as well as a simple sleek look that shares a similar design philosophy to our own brand series products. Youpin product placement is acknowledged as a validation of quality and style. As a result, our merchants know that placing products on Youpin will improve brand recognition and likely increase sales.

Third-party Online Distribution Partners

We sell our products through a global online distribution network comprising of third-party e-commerce partners. In mainland China, we cooperate with major e-commerce players such as JD.com and Suning.com, who directly purchase our products and subsequently distribute the products to end users. In India and the rest of the world, the third-party e-commerce marketplaces on which our products are sold primarily include Flipkart, TVS Electronics and Amazon. We believe that the online distribution of our products through these leading e-commerce players enables us to take advantage of their established customer base and brand recognition and helps us reach a wide group of customers in a variety of global markets.

We typically enter into a non-exclusive framework agreement with each online distribution partner, and receive orders from them on a regular basis and deliver our products within our committed timeline. Pursuant to the framework agreements, our distribution partners are not allowed to return our

products unless they are defective according to the relevant laws of the mainland China or other applicable laws. The framework agreements typically have a term of one year and can be renewed by the parties upon mutual agreement.

The following table sets forth the changes in the number of our online distributors for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
As of the beginning of the period	36	58	90
Addition of new online distributors	23	37	40
Number of online distributors terminated during the period	1	5	21
Net increase (decrease) in online distributors	22	32	19
As of the end of period	58	90	109

The increase of our online distributors from 2015 to 2017 was attributable to the expansion of our business.

Offline

For offline, we sell our products through our own retail stores, Mi Homes, directly to our users and through a third-party distribution network comprising of (i) cellular network carriers in mainland China, (ii) retail chains and local authorized stores in mainland China, and (iii) international distributors, including wholesale distributors, cellular network carriers, and authorized stores. As a key part of our offline retail strategy, we endeavor to work with no more than one distribution intermediary to ensure distribution efficiency, competitive retail pricing and great user experience.

Direct Offline Retail

As an integral part of our new retail strategy and to ensure a consistent satisfactory shopping experience for our products, we have built a large network of offline retail stores called Mi Homes, primarily in mainland China and India. In mainland China, our Mi Homes footprint covers substantially all provinces and municipalities. As of March 31, 2018, we had 331 Mi Homes in mainland China. We typically operate our Mi Homes in large cities in mainland China.

Our Mi Homes are typically located at high-traffic locations in quality shopping malls and urban shopping districts. The stores are designed to enhance the presentation and marketing of our products and services. Our in-store personnel are well-trained and knowledgeable on our products. Also, we believe that direct interaction with our targeted customers is an effective way to demonstrate the advantages of our products. To enhance customer experience and our operational efficiency, we do not incentivize or encourage our in-store personnel to promote our products or services to potential customers in an unsolicited manner. In 2017, our self-operated Mi Homes generated the second highest average sales per square meter among retail store chains globally, according to iResearch.

Third-Party Offline Distribution Network

We distribute our products through cellular network carriers in mainland China, including China Mobile, China Unicom and China Telecom. Pursuant to our distribution agreements with cellular network carriers, a given cellular network carrier is only allowed to distribute our products within the geographic region specified in the agreement at prices specified in the agreement. Our

partner cellular network carriers are not allowed to return our products unless they are defective according to the relevant laws of mainland China.

In addition, we collaborate with consumer electronics retail chains and local authorized stores to distribute our products. Our retail chain partners include leading national brands and regional players, and we typically enter into a non-exclusive framework agreement with each retailer and sell our products to retailers on a per-order basis. To further penetrate lower-tier cities and rural areas in mainland China and India, we enter into exclusive framework agreements with local authorized stores called "Mi Preferred Partners" to distribute our products.

We do not commit to repurchase our products from the retailers or local authorized store owners. We recommend a minimum price on the resale of our products. Our retailers and local authorized store partners are our customers rather than agents, because once we have sold and delivered our products to them, they bear the risks of damage and obsolescence and they may not return the products unless they are defective according to the relevant applicable laws. The framework agreements typically have a term of one year.

For selected international markets, our wholesale distribution partners distribute our products to other sub-distributors and retailers only within certain designated territories, and those sub-distributors and retailers will subsequently sell our products to end users. Our wholesale distributors are typically specialized in the distribution of smart hardware and operate well-established local distribution networks. We typically enter into a non-exclusive framework agreement with each distributor and sell our products to them on a per-order basis. In addition, we authorize third parties in selected international markets to exclusively sell our products in their physical stores. We control the interior design of our authorized stores to ensure consistent brand presentation, which enhances our brand awareness in global markets, and we provide our authorized store partners with sales and service guidelines to ensure satisfactory customer experience. Pursuant to our framework agreements with international distributors, including wholesale distributors and authorized store partners, we do not grant our distributors any right of return, and we do not have any obligation to repurchase our products from the distributors in any event. However, we may provide a certain percentage of products in the purchase orders as warranty stock, which our distributors may use to provide any replacement or other services and support to end users. Such warranty stock is typically the exclusive remedy for any defective product.

We recommend a minimum price on the resale of our products. We generally have the right to unilaterally terminate the framework agreements if the distributors fail to meet the purchase targets set forth in the framework agreements. Our framework agreements with distributors typically have an initial period of one year and are automatically renewed for increments of one year unless, upon expiration, any party terminates the agreement.

The following table sets forth the changes in the number of our offline distributors in both mainland China and the rest of the world for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
As of the beginning of the period	24	93	299
Addition of new offline distributors	70	231	920
Number of offline distributors terminated during the period	1	25	116
Net increase in offline distributors	69	206	804
As of the end of period	93	299	1,103

Internet Services

Given our vast, diverse and highly engaged user base, we are well positioned to broaden our services. Since our inception, we have focused on improving the integration of our products and internet services and the connectivity between our devices in order to provide a better user experience. As a result, we have achieved a high level of user engagement and retention. In March 2018, we had approximately 190 million MAUs on MIUI. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. In addition, we have a proven ability to develop killer apps. In March 2018, we had 38 apps with more than 10 million MAU and 18 apps with more than 50 million MAUs, including Mi App Store, Mi Browser, Mi Music and Mi Video. The apps we developed ranked number one in many categories in terms of MAU on our smartphones, including browser, music, video, literature and security in mainland China in March 2018. In March 2018, over 20% of the total time spent on our smartphones by our users was on apps we developed. In addition to MIUI, we also provide internet services to users on other operating systems. These services include Mi Store, Youpin, Mi Home and Mi Fit. By offering these internet services, we expand our user base and enrich our entire ecosystem.

MIUI

MIUI is our proprietary operating system built on the Android kernel, which fully embraces and is compatible with the Android ecosystem. All Android apps are compatible with MIUI.

We developed the first version of MIUI based on the Android operating system in 2010 with significant customization and localization to adapt to consumers' user habits. Since then, MIUI has achieved high popularity among users attributable to its intuitive, fast and stable features. Over the past eight years, we made beta versions available to users every week to gather feedback and recommendations ahead of stable version updates, based on which we analyze and improve the system and have developed numerous features and optimizations to enhance its basic framework, usability and user experience. As a result, MIUI has attracted a massive user base with active user engagement. For example, on average over 65% of our users upgraded to the stable version of MIUI 9, our latest operating system, within four months after the launch of the stable version in each respective phone model.

MIUI supports a comprehensive suite of functionalities for our smartphones and provides a wide array of customized services to our users and developers to address their needs. For example, Mi Push is a stable, reliable and efficient notification service that provides a system-level message notification solution for users and developers not only on MIUI but also on other Android- and iOS-based platforms. As of the Latest Practicable Date, Mi Push has provided services to almost all of the popular apps in mainland China, Mi Push ranked number one among all Android push service providers in mainland China in terms of the number of devices that utilized push service in 2017, according to iResearch. In March 2018, there were approximately 950 million devices that utilized our Mi Push service. These devices include smartphones across all platforms, laptops, Mi TV and Mi Box. For a detailed discussion of our software engineering, including MIUI development process, please see "—Research and Development—Software Engineering." MIUI and its development efforts reflect our passion to continuously improving user experience and our sincerity with our users.

MIUI has the following key features and innovations:

- *System optimization*. MIUI is optimized on all levels to ensure optimum performance on our smartphones. We enhance system stability and speed and lower power consumption

through various measures, including launch speed boost, dynamic resource allocation, critical background acceleration, core congestion control and automatic cache clearing. As a result, MIUI is fast and smooth.

- *Superior interface and user experience.* MIUI has a number of features enabling superior usability and experience. For example, MIUI's system icons are animated to signify actions. Users can run two apps simultaneously on the same screen, and can adjust the screen space for each app. MIUI's home screen is highly customizable, with simple actions to rearrange icons, add widgets and uninstall apps. The notification shade presents information in a concise and comprehensive way by grouping all notifications by app to reduce clutter.
- *Mi Portal*. MIUI leverages our AI capabilities to offer a function that allows users to obtain extensive information under multiple scenarios, such as film reviews, encyclopedias and maps, simply by pressing any text area instead of having to leave the app currently used by the user.
- *Spam killer.* Spam killer automatically identifies and blocks all types of unwanted spam calls and text messages.
- *Mi Mover*. When users switch to one of our new smartphones, Mi Mover quickly pairs the two devices and helps the user to securely transfer all the contents of the old smartphone to the new with one click.
- *Dual apps.* Users can create and sign into dual accounts for any app, including WeChat, Facebook and more, an important feature unavailable on iOS or Android.
- *Second space.* Users can use different passcodes or fingerprints to access different profiles, each with its own wallpaper, apps, files and photos, creating separate spaces for work and leisure.
- *Mi Drop*. Mi Drop allows seamless transfer of files between devices using Bluetooth, without requiring an internet connection.
- *Yellow Pages.* Yellow Pages provides our users with information on incoming calls by identifying specific business callers and categorizing other callers based on tags made by other users. It also provides our users with additional information on such business phone numbers, such as address and links to official websites and official Weibo accounts of such businesses.
- *International roaming virtual SIM card*. Users can enjoy convenient data network services during international travel by conveniently purchasing virtual SIM cards through MIUI.
- *Universal remote control.* Mi Remote gives users the ability to control TVs, air conditioners, and a host of other appliances with smartphones.

All of our smartphones have pre-installed MIUI, and users of other smartphones with the Android operating system can install MIUI on their devices for free. MIUI pre-installed on our smartphones shipped internationally may vary from our domestic versions, with system framework, design and customization catered to the local markets.

Mi Cloud

Mi Cloud is our cloud storage and cloud computing service that provides users with a one-stop solution to address the needs of personal data storage and backup. Seamlessly integrated with our

products such as our smartphones, Mi Cloud offers a comprehensive and convenient storage service for user data, including data in a user's contacts, messages, photos, videos and documents. Mi Cloud synchronizes each individual user's data on different devices and keeps the data updated across all devices through a unified online account. Any changes to the stored data are automatically synchronized regardless of the device on which the change is made, making data migration easier. Mi Cloud backs up scalable user data automatically when a device is connected to Wi-Fi, and it possesses a broad set of features that enable multiple devices to operate faster, more securely, and save substantial costs. Mi Cloud offers 5GB of free space under a regular user plan. Users can upgrade the plan to Mi Cloud VIP storage plans with an additional 20GB, 100GB or 1024GB of storage space and other additional privileges by paying a yearly fee.

Mi App Store

Mi App Store is our distribution platform for Android-based mobile apps. According to iResearch, Mi App Store ranked number three among all Android-based mobile app stores in mainland China and ranked number one among all app stores offered by smartphone makers in mainland China in terms of average MAUs in 2017. In March 2018, over 85% of apps installed on our smartphones for the first time were downloaded through our Mi App Store. Mi App Store allows users to browse, search and obtain various mobile applications for mobile devices, and through these applications access the mobile internet on a secure and user-friendly platform. Through various apps, users can conveniently obtain internet content such as video, music, games and e-books. We leverage our proprietary development skills and technologies and have established strong relationships with app developers and content providers to provide a large quantity of mobile apps and other content on our Mi App Store.

Mi Browser

Our Mi Browser provides our users with a fast and secure browsing experience. Mi Browser can automatically block malicious websites, identify them among search results and scan files downloaded through the browser for security threats. Mi Browser also offers a "private browsing" option to allow users to surf the internet without leaving historical access records. Mi Browser features user-friendly user interface and functions. For example, users can store their bookmarks on our Mi Cloud and access the bookmarks whenever they want and wherever they are through a mobile device. Also, Mi Browser offers password managers to help users easily access multiple personal accounts on different online services through a secure cloud-based system.

Mi Security

Mi Security is an internet security application that we offer our users for free. It incorporates anti-virus, anti-malware, anti-phishing, malicious website blocking and secure online shopping functions in a single lightweight installation package and leverages the power of our cloud-based data analytics engines to protect our users against security threats and malicious applications. The app can perform periodic or on-demand scan of program files on our users' devices and test them against our cloud-based security threats database.

Mi Game Center

As of March 31, 2018, Mi Game Center features over 30,000 games spanning all major categories, including leisure, action and adventure, role-playing and strategy. We seek to cooperate

with leading game producers as well as individual developers to provide our users with the broadest selection of games. Users can find the latest action blockbusters as well as popular leisure games. We customize the display of the homepage and ranking of the games based a variety of factors, including each user's individual taste and preference by leveraging our big data analytics capabilities. Therefore, users get a curated selection of games and individualized gaming experience. In addition, we offer live streaming services designed for gamers to create, share and discover a broad range of mobile game-related content. Users can interact with live streaming hosts by commenting on the content or by sending virtual gifts.

Mi Video

Mi Video is our main video content distribution platform on smartphones, with content sourced from third parties. We have been ramping up and diversifying our content library to make premier content available to our users, achieved through partnership with major content providers. Mi Video is a one-stop portal for users to access both trending and recommended content. Leveraging our big data analytics, we analyze user browsing behavior to understand their tastes and preference, and dynamically update the content shown on the home page to offer users with the most desirable content. Our interface offers comprehensive viewing functions designed to enhance user experience. Our membership services generally provide paid subscribing members with a superior entertainment experience that is embodied in various membership privileges. According to iResearch, Mi Video ranked number four overall in mainland China in terms of average MAUs in 2017 and ranked number one in the video aggregation category in terms of average MAUs in 2017.

Mi Music

Our music distribution platform features large selections from popular artists and albums sourced from third parties. Our users have access to a vast array of music from both popular Chinese and international artists. Our music library spans across all major music genres such as pop, R&B, classical and traditional Chinese. We also offer podcasts and talk shows that users can subscribe to. Mi Music caters to diverse listening needs through improved search functions and AI-enabled personalized recommendations. We suggest playlists based on a variety of factors, including users' previous music selections and listening habits, time of the year or holidays and location. While our music streaming services are generally free to users, we offer VIP packages for a fee to users who prefer high-quality music formats or downloading certain music. According to iResearch, Mi Music ranked number one among all music apps offered by smartphone makers in mainland China in terms of average MAUs in 2017.

Duokan Reading

Duokan Reading is a digital reading platform that provides readers with easy access to our vast and diverse third-party content library. We strive to provide our users with the broadest and highest quality original online literary content. The library of Duokan Reading includes literary works spanning a variety of genres, such as fantasy, martial arts, science fiction, mystery and romance.

Mi Live

Mi Live is an interactive and comprehensive platform offering online entertainment live streaming services. Users of Mi Live can enjoy live streaming services and content in various channels.

Currently, the most popular channel topics on Mi Live include music, talk shows, finance, games and online literature. Mi Live comes with catalogs grouped by topics and common interests and is searchable by keyword, which enables users to navigate and explore channels easily. Within each group, channels are then ranked in terms of popularity. In addition, Mi Live supports interesting features such as customized filters and lenses as well as virtual gifts and associated special effects, some of which are enabled by facial recognition and augmented reality technology. Mi Live also provides functions for users to post and share messages, photos and short messages with other users on Mi Live.

Internet Finance

We commenced our internet finance business in 2015. Since then, we have developed innovative financial products and internet payment platforms to meet our users' diverse financial goals. Our loan products include installment purchase loans, which allow users to finance purchase of our hardware, and consumer loans, which allows users to satisfy their other financial needs. We distributed our loan products mainly through our Xiaomi Finance, Xiaomi Wallet and Xiaomi Loans mobile apps. In addition to our loan products, Xiaomi Wallet has additional mobile wallet and payment functions such as money transfer and bill payment. We co-founded the third internet bank in mainland China with a minority equity interest in December 2016.

We have a highly advanced and customized credit assessment and risk management approach, built on our massive and diverse user database. We analyze data of users accumulated through the everyday use of our products and services, assess their credit risk through our proprietary risk assessment model, and pre-approve a user for a certain amount of credit based on the credit assessment result. We obtain prior consent from our users to collect their personal data before we use their data. We have a strict company-wide policy that protects the confidentiality of user data and have taken technical measures to ensure the security of users' personal data to prevent personal data from being misappropriated, divulged, damaged or lost.

Monetization

Currently we monetize our services primarily in mainland China and focus on advertising and internet value-added services. We have begun to build internet service monetization capabilities in India, Indonesia, Russia and elsewhere in the world. For example, in each of India, Indonesia and Russia, on our smartphones, our Mi Music app ranked number one in the music category, in terms of MAU in March 2018, our Mi Browser app ranked number two in the browser category and our Mi Video app ranked number two in the video category. Our monetization approach is to emphasize long-term sustainable monetization capabilities without compromising our exceptional user experience.

Our hardware creates a platform for users to engage with our internet services, which in turn we monetize through advertising and a wide range of internet value-added services. We use our proprietary technologies and big data analytical capabilities to offer comprehensive and innovative services to our business partners and users.

Advertising

Our advertising distribution channels primarily include our mobile apps and smart TVs. In mainland China, we had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs in March 2018, such as Mi App Store, Mi Browser, Mi Music and Mi Video. We

offer diverse types of advertising formats to our advertising customers, such as display and performance-based advertising, to suit their particular business needs and marketing goals. Utilizing our robust big data analytics and AI capabilities, we customize the look, feel and timing of the display of the marketing messages to allow their seamless integration into content while not compromising user experience. Our advertising customers cover diverse industries, ranging from auto and consumer goods to internet services and financial services, and they place advertisements directly with us or by engaging advertising agencies and resellers which in turn enter into contracts with us. We generate advertising revenue from this marketing distribution channel primarily by offering display-based and performance-based advertisement services. We also generate advertising revenues from search-based marketing services and from third-party app developers for pre-installing their apps on our smartphones.

Our automated marketing functionalities for advertisers empower performance-based marketing throughout our mobile apps. We offer a suite of analytical tools to help our advertising customers to evaluate the performance of their ads and improve key metrics such as click-through rate. We allow e-commerce advertising customers to integrate their catalog into our platform, leading to more precise targeting and pushing of their products. Our big data technologies enable a real-time and dynamic bidding process by analyzing bidding price and click-through rates of the advertisements, which facilitate market making and improve monetization. Through the use of aggregated behavioral targeting data and analytics, we continually improve the effectiveness of our online marketing services for our advertising customers.

Internet value-added services

A significant portion of our internet value-added service revenues was derived from online games. We offer streamlined digital sales, distribution and operational support services to third-party game developers. We offer a broad range of operational support to our third-party game developers, in a joint effort to enhance user engagement and increase monetization. For example, we closely monitor and analyze the key performance metrics of a game, including daily active users, average daily time online, paying user conversion rate and retention rate. Based on these metrics and leveraging our big data capabilities, our games operation team actively identifies areas for improvement and offers diagnostic advice to game developers. We also design promotional activities to help game developers gain more exposure and improve performance. We seek to maintain close and mutually beneficial relationship with key game publishers. Most of the games on our platform are free-to-play. We primarily generate revenue from sales of virtual currency that can be spent on purchase of virtual items for use in the games we operate, which is subject to revenue-sharing arrangements with third-party game developers. We first charge our users through our platform and then share a certain percentage of such revenues with game developers, except with a small number of developers, where payments are first routed to them via their own charging and billing system and we subsequently obtain our portion of revenues following the account settlement.

Our other sources of internet value-added service revenues mainly include paid subscription by users of premium entertainment content (such as online videos, literature and music) as well as live streaming and internet financial services.

Value Proposition to Internet Service Partners

Massive and engaged user base and direct user interaction. We operate one of the largest internet platforms in mainland China in terms of user base and engagement. Our internet service

partners can effectively and efficiently gain incremental user traffic and monetization opportunities through our platform.

Marketing and promotions. Leveraging the scale and deep engagement of our users, especially Mi Fans, we enable our internet service partners to run special promotions and targeted marketing campaigns utilizing data and interactive media in ways that cannot be achieved through traditional media or social networking platforms.

Dynamic IoT platform and rich application scenarios. We are at the forefront of the IoT transformation in mainland China, and our internet platform encompasses all common application scenarios. Our partners are encouraged to take advantage of our infrastructure to build and offer internet services that are at the forefront of the next wave of technological revolution.

Big data analytics. Within the parameters of our strict data privacy and protection policy, we conduct sophisticated analysis of user behavior and preferences to enable our partners to more effectively target their offerings and marketing efforts.

Global Operations

Our global expansion began in 2014, with the pace accelerating significantly since 2016. As of March 31, 2018, we have sold our products in 74 countries and regions across five continents. According to IDC, we were among the top five smartphone brands in terms of unit shipments in the fourth quarter of 2017 in the following 15 countries and regions: India, Myanmar, Ukraine, mainland China, Egypt, Greece, Israel, Qatar, Russia, Indonesia, Singapore, Poland, Bulgaria, Czech Republic and Kazakhstan. Not only have we gained breadth, but we have also achieved remarkable depth within our global footprint by becoming the market leader in a number of key countries and regions with tremendous potential. In such countries and regions, we work diligently to replicate our unique triathlon business model of hardware, new retail and internet services in strict compliance with local laws and regulations. We generated 28.0% of our total revenues in 2017 outside of mainland China, compared with 13.4% in 2016 and 6.1% in 2015.

India

India represents our largest market outside of mainland China and is an example of the success we achieved in international expansion. We entered the Indian market in 2014 and became the number one smartphone company by unit shipments in India in only three and a half years, according to IDC. We have built a robust new retail infrastructure for the distribution of our products and services. In addition to our online Mi Store, our online sales channels in India also include popular e-commerce marketplaces such as Flipkart, TVS Electronics and Amazon. Our offline channels include an expansive network of Mi Homes and authorized retail stores operated by third parties. We also customized our products for the Indian market. For example, we enhanced the heat and erosion resistance of our hardware products in light of the higher average temperature in India. In addition, we are enlarging our product portfolio for the India market. For example, we launched Mi TV in February 2018.

In compliance with local rules and regulations, we partner with a local outsourcing partner to assemble our smartphones sold in India. We are also expanding our internet service offerings to users in India through collaboration with and investment in local partners, such as video content providers.

Rest of the World

When selecting new countries and regions for our products, we prioritize strategically important markets with large population and compatible telecommunications infrastructure. We provide finished products to these local markets except for Indonesia, where the smartphones we sell there are locally assembled pursuant to our quality-control guidance.

Customers and Customer Service

Customers

Our customers primarily include (i) end users who purchase our products, (ii) our online and offline distributors to whom we sell our products, (iii) advertising customers of our advertising services and (iv) users of internet value-added services.

Our top five customers accounted for 29.7%, 27.0% and 32.0% of our total revenue in 2015, 2016 and 2017, respectively. Our largest customer accounted for approximately 10.4%, 15.4% and 13.5% of our revenue for the years ended December 31, 2015, 2016 and 2017, respectively. In 2017, our top five customers included (i) a leading e-commerce company in mainland China, (ii) an e-commerce company based in India, (iii) a consumer electronics retail company in mainland China, (iv) a consumer electronics distributor based in India and (v) an Indian branch of a leading international online e-commerce company. See "Risk factors—Risks Relating to Our Business and Industries—Any substantial decrease in the purchases for our products or services from our five largest customers could have a material and adverse effect on us."

None of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital) had any interest in any of our top five customers during the Track Record Period.

Customer Service

Providing great customer service is a high priority for us. Our commitment to users is reflected in the high levels of service provided by our customer service staff as well as in our product return and exchange policies. We had 15 customer service centers in 15 cities globally as of the Latest Practicable Date, handling user queries and complaints regarding our products and services. Users can make queries on our products and ordering process and file complaints around the clock by various means, such as online chatting, a customer service hotline, online written instant messages through Xiaomi official accounts in WeChat and Weibo, and emails. Our customer service representatives are required to complete training on product and service knowledge, complaint handling and communication skills.

After-sale Service

We generally allow customers to return unused goods purchased through our online channels and to exchange defective goods within certain period in compliance with regulatory requirements. Our customers may also have their products replaced for specific types of defects or quality issues as required under the relevant laws and regulations. In mainland China, we generally allow users to return our products purchased online for any reason within seven days from the date of purchase except for certain limited products where we allow return only if the packages of the products are intact, and we generally allow users to exchange any defective products within 15 days from the date of purchase. For returning, exchanging or repairing any defective products, our customers can either visit our authorized service centers or mail such products to our product repair centers.

In mainland China, India and 14 other selected countries and regions, we are responsible for after-sale services for all Mi-branded products sold by us or sold to end users by our distributors. In selected international markets, our local distributors are responsible for any replacement product, service, and support for end users. Such partners are contractually obligated pursuant to our framework agreements to provide after-sale services at a service standard level requested by us.

During the Track Record Period, the total value of products returned in mainland China amounted to RMB1,150.8 million, RMB710.8 million and RMB1,000.5 million for 2015, 2016 and 2017, respectively, representing approximately 1.8%, 1.2% and 1.2% of our total revenues generated from mainland China for the corresponding years. During the Track Record Period and up to the Latest Practicable Date, there were no material product recalls, product returns, product liability claims, warranty expenses or customer complaints that adversely affected our business.

Delivery

We believe that reliable and timely product delivery is a critical component of providing a compelling shopping experience. We ship products purchased online through third-party logistics service providers. We have developed relationships with third-party logistics service providers to expand the geographic coverage of our operations. We generally are able to ship products to end users within one to seven days after online order placement.

Warranties

We typically offer a limited parts and labor warranty on our products. The basic warranty period is typically in the range of one to three years from the date of purchase by the original user. In mainland China, we also offer a 90-day limited warranty on the components and parts used to repair our products. In certain jurisdictions, local law requires that manufacturers guarantee their products for a period prescribed by statute, typically at least two years. In addition, where available, users may purchase extended service coverage on many of our products for a fee.

Pursuant to the framework agreements with our outsourcing partners, in general our partners should repair any of our products with material quality issues and compensate us for any actual losses if the material quality issues are due to their assembling process. Our outsourcing partners are not responsible for material quality issues due to our product design or the components and raw materials procured by us. We provide one-year technical support and spare part support for hardware products sold to our international distribution partners.

For the years ended December 31, 2015, 2016 and 2017, our warranty expenses amounted to RMB1,260.4 million, RMB1,036.2 million and RMB1,828.6 million, respectively.

Marketing and User Engagement

Branding and Endorsements

Since our inception we have emphasized the value of customer feedback and direct communication with our users. We do not have very large selling and marketing expenses for a company of our size. Instead, we rely on word-of-mouth marketing through continual offering of killer products. We have fostered a large, active and loyal user base. In order to reach a wider customer base, we engage popular celebrities as brand ambassadors for our products and sponsor popular variety shows.

Community and Engagement

We have a close-knit user community that shares our core values. They actively participate in our Mi Community, MIUI forum, various other social media platforms, our research and development initiatives and offline activities. We cultivate and support the growth of our user community through close interaction with our users, especially Mi Fans, and actively listening to their feedback. We have adopted a user-centric research and development approach. Mi Fans can directly provide our engineers and developers with valuable suggestions and insights, which enables us to capture user demand and market trends in a timely and precise fashion.

Social Media

Mi Community and MIUI forum are our official online discussion forums where users can share thoughts and experience, discover new functionalities and make recommendations for improvements for our products and services. As of March 31, 2018, our users had collectively generated approximately 250 million posts on our MIUI forum since we launched it in August 2010. We also had over nine million MAUs on our MIUI forum in March 2018. Our engineers regularly participate in our online discussion forums to respond to users' queries and understand users' evolving needs. We also maintain various official social media accounts to actively engage with the users by addressing their questions and concerns. Our news channel on Mi Community publishes the latest news and updates about our Company and products. Our users also engage with us through other social media platforms. As of March 31, 2018, there were approximately 29.6 billion Xiaomi related posts on Weibo. In the first quarter of 2018, there were over 37 million page views of our Xiaomi official WeChat account.

Offline Events

Our official offline events are nicknamed "Mi Pop." These events range from Mi Fan meet-ups to sporting events to dinner parties with our management teams. Mi Fans often take the initiative in planning and organizing these events to promote Mi Fan pride. Our close-knit and vibrant Mi Fan community is highly visible. Such events generate significant buzz on social media. We greatly benefit from word-of-mouth marketing and referrals by our passionate Mi Fans.

Data Privacy and Protection

We are committed to protecting our users' personal information and privacy. We believe it is crucial that our users understand how we handle their information so that they can make informed choices in deciding how such information is used and shared. To this end, we collect personal information and data from users only with their prior consent, and we offer our users opt-out or opt-in options.

We have established a strict company-wide policy on data collection and processing and have implemented a network of process and software controls to preserve individual personal information and privacy. In accordance with our policy, the processing of any user data is required to go through the following assessment procedures: (i) providing adequate notice to users as to why and how their data is being collected and used, (ii) providing users with the choice to opt-out or opt-in, (iii) making reasonable efforts to prevent loss or leakage of any user data, (iv) providing users access to personal information held about them, and (v) enforcing the policy with effective means. We do not distribute or sell our users' personal data to other companies for advertising or other purposes without users' permission. We encrypt user data in network transmission. For back-end storage, we also use various

encryption technologies at software and hardware levels to protect sensitive user data. To minimize the risk of data loss or leakage, we conduct regular data backup and data recovery tests. We also require any access to or processing of user data to go through strict assessment and approval procedures in order to assure that only valid and legitimate requests are executed. Our proprietary mobile security software protects users from phishing sites in real time.

We prioritize user data security and privacy by strictly following our defined policy. We have a dedicated team to enforce our privacy practices. Since 2016, the privacy practice of our MIUI and Mi Store has been certified by TrustArc, a privacy compliance and risk management company that conducts comprehensive assessment of privacy policy and control measures.

Technology and IT Infrastructure

Cloud Computing

Our sophisticated and strong cloud computing capability empowers us to provide differentiated services to our users and supports our continuous data analytic efforts. For individual users who grant consent to us, we leverage our cloud computing technology to store and analyze user data and provide tailored services to our users to enhance user experience. For instance, for photos taken on our smartphones, upon prior consent by our users, our cloud computing system analyzes and recognizes the objects, scenarios and figures in the photo, and allows the user to search for photos using key words in an album with higher precision. Through its capability to gather and analyze user data and user behaviors, our cloud computing technology serves as a universal analytics and processing engine that optimizes the functionality of our products in frequent and important user scenarios, thus enhancing the competitiveness of our products. For example, we design and develop customized optimization of our products for users in various countries and regions based on their different photo-shooting habits. As of March 31, 2018, our data storage system stores and processes multi-dimensional user data and has accumulated more than 230 PB of valuable data since our inception.

In addition, our cloud computing technology enables our ecosystem partners to conduct their business operation with security. Connecting to our enterprise cloud helps our partners achieve real-time storage and data backup and enables high-capacity and scalable data processing in an efficient, cost-effective and flexible manner. Our cloud computing also supports emerging applications so that IoT hardware can compute locally at the edge, while leveraging the cloud for global collaboration and machine learning at scale.

Big Data

Our data scientists specialize in data pre-processing, data modeling and data mining, as well as the creation of customized data analysis. Our big data processing and advanced algorithm capability enables us to analyze massive amount of data, based on which we design and tailor more innovative products and services to better serve and create value for our users.

With prior user consent, we collect various types of data, such as logs, user behaviors and patterns, from products and services across our platform. We have behavioral and sequential data of our users, stored in compliance with strict data privacy standards and data security requirements.

All data is pooled into one platform for ease of analysis and is further categorized into multiple layers, each requiring different level of access authority. Our different operational departments can

access the data on an as-needed and real-time basis with user consent, and utilize the data to improve their respective function and performance.

Artificial Intelligence

Our AI technology team is responsible for developing and refining our proprietary computational algorithms and machine learning capabilities, and applying the latest AI technology in our products and services. Our engineers incorporate open source software with our robust proprietary technology to form an enterprise-grade platform to deliver an integrated suite of capabilities for data management, machine learning and advanced analytics. We have successfully applied our advanced AI capabilities in various aspects of our business to improve both user experience and monetization opportunities.

Computer Vision

Our computer vision technology uses advanced algorithms and precisely detects, identifies and recognizes objects, scenes, images and faces, providing users with functionalities such as face detection and photo classification. Our facial recognition technology, the core of our computer vision technology, forms a positive feedback loop with our users' activities such that an increasing amount of user data further improves the precision and efficiency of our algorithm. The entire process is based solely on collected user behavioral statistics and does not involve users' data privacy.

Our face detection technology accurately and rapidly detects the location and the number of faces in photos. Our facial point detection technology can quickly and precisely locate key facial features and components. We have also developed advanced capabilities in facial boundary detection, face color optimization, portrait segmentation and white-balance optimization. These technologies enable our smartphones to take portrait photos with realistic bokeh effect even with one single camera. Our visual recognition app is capable of recognizing and identifying different real-life objects, such as flowers, plants, vehicles, foods, celebrities, animals, arts and posters, and facilitating our users to acquire relevant information or image or to browse similar commercial products related to the objects identified.

Speech Recognition and Natural Language Processing

We develop our leading speech recognition and natural language processing technologies under our proprietary testing standards and certification system. Our speech recognition capabilities feature highly accurate and speedy recognition and translation of spoken Chinese language into text, which builds the bedrock for further processing and analysis. Our machine translation system is trained on massive parallel corpus and achieves high accuracy for languages pairs. With sophisticated algorithms applied to a variety of daily user scenarios, we continuously improve and expand the application of voice control, both by our own team and third-party developers.

As of March 31, 2018, our proprietary AI assistant can control the operation of 118 smart hardware product models within our platform and supports millions of smart devices in use cases covering content, productivity tools and other forms of interactions. Our AI speaker is able to adapt to

users' individual language usages, searches, and preferences and carry conversations intelligently with users and respond to a range of customized queries. As a virtual assistant, it is able to recognize user voice and possesses contextual knowledge of user information to complete a variety of daily tasks assigned by users. Connected through our AI platform, our AI speaker can also interact with our apps and third-party apps to provide services such as navigating and ordering products from Mi Store. Our cloud-based open platform enables third-party developers to code and program new voice-controlled software and skills for our voice-enabled AI speaker.

Search and Recommendation

Leveraging our AI technology, we have developed a high-quality search and personalized recommendation system for our internet services, allowing users to access what they need anytime, anywhere, including information, applications, games, music, videos and merchandises. Through machine learning techniques, our system is able to better understand content, including filtering out vulgar and pornographic content, categorizing content and extracting semantic tags. For example, when our user searches for certain content, our system first identifies the query intent based on the searched term, and then matches and returns the content that best meets the user's intention through search sorting algorithms. When the user does not have a clear search intention, our system predicts the content that the user may be most interested in based on user profile and previous search history. Currently our search and personalized recommendation system powers our various services including Mi Store, Mi Music, Mi Video, Mi App Store, Mi Game Center, Mi Browser and Mi TVs. When a user opens the homepage of Mi Store, the system will recommend different products based on the predicted user interests. When a user adds a product to the shopping cart, the system also recommends other products that may be appealing to the user. Through these technologies, we deliver better user experience and increase our sales conversion rate.

IT Infrastructure

Our network infrastructure is designed to satisfy the requirements of our operations, to support the growth of our business and to ensure the reliability of our operations as well as the security of information on our internet platform. We continuously develop our platform to offer users an effortless and seamless experience across all of our internet services, while at the same time enhancing the reliability and scalability of our internet platform.

Cloud Services

In mainland China, we have contracted with KSYUN, an IaaS cloud service provider, to utilize its infrastructure, such as computing services, storage, server and bandwidth. We also utilize public cloud services in mainland China, such as Microsoft's Azure Cloud Services, to ensure the stable operation of our business. Our data storage can be switched efficiently between two cloud centers. Our enterprise cloud, as a PaaS provider, connects external cloud service system with our ecosystem partners to provide them with product development and distribution solutions. Our systems infrastructure is hosted in redundant centers in different cities in mainland China with backups stored in separate data bases of the cloud service providers. We have multiple layers of redundancy to ensure the reliability of our network. We also have a working data redundancy model with comprehensive backups of our databases conducted every day.

In the rest of the world, we primarily contract with Amazon Web Services for the use of their cloud services. The current cloud service agreements operate on an annual auto-renewal basis, unless terminated by either us or the service providers within a certain period prior to the renewable date.

Information Security

We are committed to maintaining a secure platform and protecting our users' information security. We have built an information security management system (ISMS) based on the international framework of ISO27001 to manage and protect our information from a variety of aspects, such as security policy and technical control. Our network and application systems use a defense-in-depth security system and are secured at multiple layers, including network segmentation, strict access control and secure communication protocols between the applications and cloud servers. To prevent unauthorized access to our system, we have implemented network boundary access controls and enabled multi-factor authorization for remote access. We have also implemented various security procedures, including security baseline check, a strict policy on compulsory password enforcement and periodic review mechanism with respect to data review authority.

Our multi-layer security technology automatically defends against malicious attacks every day and secures the security of our users' data in various scenarios. The communication module automatically blocks spam messages and fraud calls and alerts the central internet service provider station in real time. The payment module automatically scans a phone's security once a payment process is triggered. The account module is able to detect malicious logon and prevent account leakage. The application security module scans potential viruses and blocks any detected fake applications before a user installs them.

In addition, we back-up our user and other forms of data on a daily basis in separate and various secured data back-up systems to minimize the risk of data loss. We also conduct frequent reviews of our back-up systems to ensure that they function properly and are well maintained.

Payments

We engage major third-party payment channels in mainland China, such as WeChat Pay and Alipay, as well as Mi Pay, for hardware product sales as well as paid services sold to users through our internet services. We enter into payment service agreements with payment channels for an initial term that is typically one or two years, which in practice are typically automatically renewable upon expiry. Globally, we accept payments primarily through international credit cards and online payment service providers.

Research and Development

As the industry which we compete in is characterized by rapid technological advances, our ability to compete successfully depends on our ability to develop and introduce new products, services and technologies to the market. We are passionate about developing innovative technologies and continuous upgrading and improving the functionality and features of our technology infrastructure to enhance existing products and services and expanding the range of our offerings through in-house research and development, licensing of third-party intellectual property and acquisition of third-party businesses and technology.

As of March 31, 2018, our total research and development staff consisted of 5,515 employees. Our research and development team comprises industrial design engineers, electrical engineers,

mechanical engineers, computer scientists, software engineers and mobile app developers. We incurred RMB1.5 billion, RMB2.1 billion and RMB3.2 billion in research and development expenses in 2015, 2016 and 2017, respectively, and we incurred RMB77.9 million, RMB170.7 million and RMB139.0 million in patent application during the same period, respectively. For more details, please see "—Intellectual Property."

Product Planning

We have a long pipeline of future products on our research and development watch-list and we continue to closely monitor user preferences and make corresponding adjustment and updates to our product plans. We aim to push the boundaries of what technology can offer by providing cutting-edge products or adding new and optimized features to our existing products to users. For example, we introduced the first bezel-less smartphone, which incorporated various innovative technologies such as using vibrating ceramic acoustic techniques to replace speakers and using ultrasonic proximity sensors to replace infra-red proximity sensors.

Industrial Design and Hardware Engineering

Our product innovations are driven by our strong emphasis on research and development and the close collaboration between our engineering, industrial design and manufacturing teams. Once a development project is initiated, a multi-disciplinary team is established to design the product and transition it into production. Our industrial design team works closely with product managers and development engineers throughout the entire product development cycle, and all of its members are equipped with strong technical background and design understanding. Our hardware engineers are responsible for configuration of a product, and closely collaborate with our industrial design engineers to improve the layout and design of our product. Our industrial design and hardware engineers also maintain close communications with our engineers responsible for the manufacturing process and make adjustments to the design and hardware configuration of a product to ensure it can be manufactured efficiently with robust functionality.

Prior to entering commercial production of our in-house hardware products, our new products need to go through high-standard engineering validation testing, design validation testing and production validation testing. After products are launched, we continuously improve our products, refine our design and uncover defects through monitoring user feedback.

As of March 31, 2018, we received over 200 industrial design awards from reputable international and Chinese associations and organizations recognizing the exceptional designs of our products, including the Red Dot: Best of the Best award, the iF Gold award, the International Design Excellence Award (IDEA) Gold award and the Good Design Gold award. According to iResearch, our Mi MIX and Mi MIX 2 were the first smartphones added to the collection of the George Pompidou National Arts and Cultural Center in France. Our Mi MIX was also added to the world-renowned collection of the Finnish National Design Museum in Helsinki and the permanent collection of the International Design Museum, Munich.

Software Engineering

Our software engineers are in charge of developing our internet service products and our software platform to support the integration of our products and internet services as well as the transmission, storage and processing of user data. As of March 31, 2018, our MIUI department had

2,275 employees, among which 1,692 members were software engineers. The key elements of our software engineering philosophy include efficiency, security and reliability.

Our software engineering process is continually driven by user demands and our desire to innovate. We closely monitor user behavior and user preferences and respond to any changes or shifts by developing new features or optimizing existing features in MIUI and mobile apps. To remain innovative, we encourage our employees to maintain close communications, in some cases, in-person interactions, with our users and Mi Fans to understand their needs, and provide our development teams with autonomy and freedom to explore new concepts in updating existing apps or creating new apps.

Our development process for a new app or a major new update for MIUI or an existing app can be divided into several stages, including project initiation and development, beta testing, launch and ongoing optimization.

Once we discover unmet user needs gathered through various channels, we develop a prototype for several rounds of testing with small groups of our users. We then form an inter-departmental project team to conduct an in-depth feasibility study. If we find that a new app or new update is feasible in all respects, we will proceed to formulate steps in the development, internal testing and launch of the new app or new update. In the case of localization of a new MIUI update or an app to an overseas market, our technology teams will work closely with local teams to understand user needs and translate such needs across language and cultural divides into an effective product.

After completing the project initiation and development stage, we conduct internal tests to resolve any major technological issues and software bugs that may exist in the test version. We subsequently make the new or updated beta versions of MIUI or apps available to select users. After we launch our service, we continually monitor and analyze user behavior and continue to optimize functions and performance based on user feedback.

Suppliers of Raw Materials, Components, Finished Products and Internet Services

Procurement

We procure raw materials and components from top-tier suppliers for the production of our in-house products based upon a forecasted production plan and outsource the assembly of our in-house designed products to our outsourcing partners. We closely collaborate with our ecosystem partners to jointly design and develop hardware products, and our ecosystem partners supply finished products to us for sale and distribution to our customers.

Although most raw materials and components essential to our in-house products are generally available from multiple sources, a few components are currently sourced from a single or limited number of high quality suppliers in the industry. Therefore, many raw materials and components used by us, including those that are available from multiple sources, may at times be subject to industry-wide shortage and significant pricing fluctuations. See "Risk Factors—Risks Relating to Our Business and Industry—Future operating results depend upon our ability to obtain raw materials, components and products in sufficient quantities on commercially reasonable terms."

We use certain custom components for our in-house designed products that are not commonly used by our competitors, and new products introduced by us often source custom components available from only a single or limited number of suppliers. When a component or product uses new

technologies, initial capacity constraints may exist until a supplier's yields have matured or manufacturing capacity has increased. Continued availability of these raw materials and components at acceptable prices, or at all, may be affected if those suppliers decide to concentrate on the production of common components instead of components customized to meet our requirements.

Purchases from our five largest suppliers for each of 2015, 2016 and 2017 accounted for approximately 41.7%, 37.6% and 42.0% of our total purchase amounts during those years, respectively. Our largest supplier for the years ended December 31, 2015, 2016 and 2017 accounted for approximately 11.8%, 13.8% and 14.3% of our total purchase amount during those years, respectively. As of March 31, 2018, we had maintained business relationships with our five largest suppliers for five to eight years. These suppliers are located in the mainland China, U.S. and Hong Kong. In 2017, our top five suppliers included (i) a leading supplier of systems-on-chips based in U.S.; (ii) a supplier of electronic components based in Hong Kong; (iii) a supplier of components based in Hong Kong; (iv) a supplier of components based in mainland China and (v) a supplier of electronic components based in Hong Kong. In 2016, our top five suppliers included (i) a leading supplier of systems-on-chips based in U.S.; (ii) a supplier of components based in mainland China; (iii) a supplier of electronic components based in Hong Kong; (iv) a supplier of components based in Hong Kong and (v) a leading smartphone outsourcing assembler based in mainland China. In 2015, our top five suppliers included (i) a leading supplier of systems-on-chips based in U.S.; (ii) a supplier of components based in Hong Kong; (iii) a supplier of components based in mainland China; (iv) a leading smartphone outsourcing assembler based in mainland China and (v) a supplier of electronic components based in Hong Kong. See "Risk Factors—Risks Relating to Our Business and Industry—Future operating results depend upon our ability to obtain raw materials, components and products in sufficient quantities on commercially reasonable terms."

During the Track Record Period, none of our Directors, their associates or any shareholders of our Company (who or which to the knowledge of the Directors owned more than 5% of our Company's issued share capital) had any interest in any of our top five suppliers.

Major Raw Materials and Component Suppliers

The main components and raw materials used in the assembly of our in-house products include SoCs, displays, memory chips, batteries and cameras. We procure our main components and raw materials directly from suppliers or their authorized distributors. We seek to avoid shortages of components and raw materials by actively balancing our rolling hardware product demand forecasts with our component and material stock levels. We believe we have good relationships with our suppliers. In addition, we design certain key components, such as SoCs, in house.

We typically enter into framework agreements with suppliers for our key components, pursuant to which we make separate purchase orders and negotiate the prices and volume at each purchase order. The suppliers are responsible for the transportation of our purchases to locations designated by us. We are typically granted credit terms of 60 to 90 days by our suppliers and their authorized distributors of components and materials, except for certain key components and materials for which advance payments are required. In general, our suppliers are required to compensate us for any direct economic losses resulting from their components and materials. The framework agreements typically have a term of one year, which may be extended if agreed by both parties.

Major Finished Ecosystem Hardware Product Suppliers

Our major ecosystem partners who supply us with finished products include:

- *SmartMi*. SmartMi is the supplier of our smart air purifiers and air quality monitors.
- *Huami*. Huami is the supplier of our smart bands, watches (excluding children's watches and quartz watches), scales and associated accessories.
- *Zimi Technology*. Zimi Technology is the supplier of our suite of mobile power-related hardware products.
- *Roborock*. Roborock is the supplier of our smart robot vacuum cleaners.
- *Ninebot*. Ninebot is the supplier of smart scooters.
- *Viomi*. Viomi is the supplier of our water purifiers and certain other smart IoT home appliances.
- *1More*. 1More is the supplier of headphones.

For ecosystem hardware product suppliers, we are also typically granted credit terms of 60 to 90 days.

Major Internet Services Providers

We obtain digital content for our internet services from a variety of internet services partners. Based on the type of internet services, our major internet service partners include:

- *Games:* Tencent, Kunlun and NetEase.
- *Videos:* iQIYI and Sohu.
- *Online Literature*: China Literature.
- *Music:* Rock Records.
- *News*: Yidian Zixun.

We typically enter into revenue sharing agreements with suppliers of our internet services.

Assembly

A substantial majority of our in-house products are currently assembled by our outsourcing partners in mainland China, and some of such products are assembled in India and Indonesia in compliance with the relevant local regulations. Our outsourcing partners produce our products using design specifications and standards established by us. We possess the key patents and technologies in relation to our hardware production. Our partners specialize in the assembling of electronic devices, and we believe they are experienced and well-positioned to meet our volume, cost and strict quality requirements. As of March 31, 2018, we had maintained business relationships with our five largest outsourcing partners for one to six years. During the Track Record Period, none of our five largest outsourcing partners were a connected person of ours.

We have entered into a framework agreement with each of our outsourcing partners. Each framework agreement sets forth the general terms and conditions of cooperation. Pursuant to the

framework agreement, the assembling fees are quoted by our partners based on assembling volume and the specification of the model and series of our products and confirmed in writing by both parties in separate production orders. The assembling fees are typically paid within a period of time after product delivery. We are required to provide rolling assembling volume forecasts and issue orders in advance. If our order volume is higher than the forecasted volume, our partners have obligations to ensure the timely assembling of the excess demand from us that is within a certain percentage of the forecasted volume. We should notify our partners at least two months in advance for any assembling demand over a certain percentage of the forecasted volume. In general, if our partners fail to meet our volume forecasts over a certain threshold, they compensate us for any resulting economic loss. We also run test assembling of new models and series of our products with our partners in advance of mass assembling in order to evaluate our partners' facility and technological capabilities and to optimize the entire process. Our partners are required to safe-keep raw materials, maintain waste of raw materials within certain levels during assembling, and comply with quality standards agreed upon by us. The framework agreements typically have a term of three years subject to negotiations of renewal upon expiration and contain customary termination clauses.

Our outsourcing partners assemble hardware devices using components and raw materials primarily sourced and procured by us. Our engineers and other quality assurance professionals monitor the assembling process and compliance with all of our protocols. We believe that outsourcing assembling affords us greater scalability and flexibility than establishing and maintaining our own assembling facilities. We periodically evaluate the necessity and benefit of working with additional outsourcing partners to support our operations.

Major Domestic Outsourcing Partners

In mainland China, we have engaged outsourcing partners to assemble our in-house hardware products, including Foxconn that has its assembly facilities for our products located in Hebei Province, and Inventec Appliances that has its facilities for our products located in Jiangsu Province. Our outsourcing partners in mainland China assemble products for sale in mainland China and globally (except for India and Indonesia). The major outsourcing partner we engage for our smart TVs is TCL Multimedia. We have not encountered any material delays in the assembling or delivery of hardware devices from our partners in mainland China, during the Track Record Period.

Major International Outsourcing Partner

India is our second largest market. We primarily rely on our outsourcing partner in India, Foxconn, to assemble our products sold in the country. We have not encountered any material delays in the assembly or delivery of hardware devices from our partners in India, during the Track Record Period.

Logistics and Inventory Management

Logistics and Warehouse

We operate our warehouses for storing finished products and certain components and raw materials, and we engage third-party logistics service providers for delivery services. Finished products that have passed quality inspections are delivered by the logistics service providers from our outsourcing partners to our warehouses, packaged in accordance with our specifications and quality standards, subsequently delivered to our regional warehouses, and ultimately to locations specified by our customers, including users and distributors.

Inventory Management

Our inventory includes components and raw materials for in-house hardware products and finished products. We have a strict inventory control policy to monitor our inventory levels and minimize obsolete inventory. Through close coordination with our customers and outsourcing partners, as well as frequent purchases of components from suppliers, we are able to carry fewer raw material and in-process inventories and lower our inventory risk. However, to avoid any shortage of supplies, we may strategically keep a higher level of stock for certain key components to preempt possible industry-wide shortages.

Product Quality Assurance

We are committed to maintaining the highest level of quality in our products. We have designed and implemented a quality management system that provides the framework for continuous improvement of products and processes and have established a product quality assurance committee to monitor the implementation of our quality management system. Led by Lei Jun, who is the incumbent chairman of our product quality assurance committee, the committee formulates quality assurance policies and sets up a quality promotion team in each of our operational departments to promote quality improvement.

For our new product lines, we conduct thorough examinations of product samples and each of their components at the product verification testing stage to make sure they satisfy all the technical requirements set forth in our structure design and industrial design. The examination results are recorded on a set of product sample documents, which are further reviewed and approved before they are handed over to our outsourcing partners to begin assembling.

For mass production lines, we also have a quality assurance team that establishes, communicates and monitors quality standards by product category.

We have access to each assembly facility of our outsourcing partners, and our quality control team continually monitors the quality of incoming components, materials and finished products as well as the assembling processes at our partners' facilities.

We passionately pursue friendships with our users and actively respond to their needs by reflecting their feedback in our products. Meanwhile, we continuously improve our products and enhance their competitiveness. We were among the top ten in the "Made in China 2025" quality award in 2017. Lei Jun was honored as the "Spokesman of Quality of the Year" in 2017 by the General Administration of Quality Supervision, Inspection and Quarantine of China and was appointed Vice Chairman of the China Association for Quality in February 2018.

Intellectual Property

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We currently hold a broad collection of intellectual property rights relating to certain aspects of our in-house designed and ecosystem hardware products, software and internet services. Such rights include trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights in mainland China and a number of overseas jurisdictions. For ecosystem hardware products, we typically exclusively hold the intellectual property rights relating to the design of such products and hold joint ownership over the intellectual property

rights relating to the technology arising from the joint research and development of such products with our ecosystem partners. Our ecosystem partners are allowed to use such jointly-owned intellectual property rights to develop and manufacture products of their own brands with features that can be easily differentiated from ours, but need to obtain our prior consent if they would like to license such intellectual property rights to a third party. We have entered into worldwide intellectual property cross license agreements with a number of global technology leaders in the mobile telecommunications market.

Many of our products are designed to include intellectual property we licensed from third parties. We have established relationship with Qualcomm since 2010. In September 2016, we entered into a 3G and 4G mainland China patent license agreement with Qualcomm under which Qualcomm granted us a royalty-bearing license right for 3G and 4G completed devices in mainland China. Such agreement is currently effective and contains customary termination clauses. We further expanded our cooperation with Qualcomm and entered into a multi-product patent license agreement in November 2017. Under such agreement, Qualcomm licensed to us certain patents on a royalty-bearing basis for certain 3G and 4G devices outside of mainland China. We entered into a new multi-product patent license agreement with Qualcomm in April 2018, which replaced the multi-product patent license agreement entered into with Qualcomm in November 2017. Under the new license agreement, Qualcomm licensed to us, outside of mainland China, certain new technologies in addition to those licensed to us under the prior license agreement on a royalty-bearing basis. This newly-entered license agreement is currently effective and contains customary termination clauses.

We entered into a collaboration and license agreement with Microsoft in May 2016, under which Microsoft agreed with us to collaborate on the deployment of Microsoft Office and Cortana applications in connection with our Android compatible smartphones and tablets and to sell such products pre-installed with Microsoft software suite in mainland China, India and certain other countries and regions. We cooperate with Microsoft in software pre-installation, technical support and patent licensing and transaction. The agreement with Microsoft is currently effective and contains customary termination clauses. We also entered into a purchase agreement with Microsoft in May 2016, under which Microsoft transferred patents to us.

We obtained a license to use the patented technology in Via Licensing Corporation's Advanced Audio Coding (AAC) patent pool by entering into a patent license agreement with Via Licensing Corporation in December 2016. We were granted patent rights on a royalty-bearing basis for devices encoding or decoding data in accordance with the AAC standards. The license agreement with Via Licensing Corporation is currently effective and contains customary termination clauses.

In June 2017, we entered into a multi-year patent agreement with Nokia, under which we cross licensed each party's cellular standard essential patents for devices that include such cellular standard technology, and we acquired certain patent assets from Nokia. The agreement is currently effective, and contains customary termination clauses.

It may be necessary in the future to seek or renew licenses relating to various aspects of our products, processes and services. While we have generally been able to obtain such licenses on commercially reasonable terms in the past, there is no guarantee that such licenses could be obtained in the future on reasonable terms or at all. See "Risk Factors—Risks Relating to Our Business and Industry—We rely on access to third-party intellectual property, which may not be available to us on commercially reasonable terms or at all."

Intellectual Property Protection

The protection of our trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights is a strategic priority for the sustainable development and growth of our business. We regularly file patent and other proprietary rights applications to protect innovations arising from our research, development and design, and are currently pursuing thousands of intellectual property applications around the world. In particular, we have accumulated a large portfolio of issued patents, including utility patents, design patents and others, in mainland China and various countries and jurisdictions internationally. We believe the duration of our intellectual property rights is adequate relative to the expected lives of our products and services.

We rely on a combination of patent, trademark, copyright and other intellectual property protection laws in mainland China and other jurisdictions, fair trade practice, as well as confidentiality procedures and contractual provisions to protect our intellectual property. In general, our employees must enter into a standard employment contract which includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, third parties may infringe our intellectual property rights. Unauthorized use of our intellectual property by third parties and the expenses that may incur in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See "Risk Factors— Risks Relating to Our Business and Industry—We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position."

Geographic Distribution of Intellectual Property

As of March 31, 2018, we had over 3,600 patents registered with the State Intellectual Property Office of mainland China and over 10,900 pending patent applications in mainland China. Globally, we had over 3,500 patents registered and over 5,800 pending patent applications in various overseas countries and jurisdictions, which were primarily filed in the United States, Europe (including but not limited to, UK, France, Germany), India, Japan and Russia.

As of March 31, 2018, we owned approximately 140 software copyrights and approximately 150 other copyrights registered with the State Copyright Bureau of mainland China all of which were self-created. As of March 31, 2018, we had approximately 1,600 trademarks in various categories registered with the China Trademark Office. In addition, we had approximately 3,700 registered trademarks in various overseas countries and jurisdictions internationally.

As of March 31, 2018, we owned more than 500 registered domain names, including domain names of our official websites. We pay renewal fees for our domain names regularly.

We did not have any material disputes or any other pending material legal proceedings of intellectual property rights with third parties during the Track Record Period and up to the Latest Practicable Date.

Please see "Appendix IV—Statutory and General Information—Intellectual Property Rights of our Group" for details of our material intellectual property rights.

Strategic Investments

Our success is based on our ability to create new and compelling products, services, and experiences for our users, to embrace disruptive technology trends, to enter new geographic markets, and to drive broad adoption of our products and services. Our investment strategy is (i) to deepen strategic cooperation with partners through investing and becoming active shareholders and (ii) to apply financial investment rigor and invest in only our best-in-class partners. Our corporate development investment efforts are divided into (i) IoT and lifestyle product investments, (ii) media and entertainment investments, (iii) mobile internet investments, (iv) internet finance investments and (v) artificial intelligence investments. As of December 31, 2015, 2016 and 2017, our realized investment income was RMB533.5 million, RMB29.5 million and RMB283.4 million, respectively. For the years ended December 31, 2015, 2016 and 2017, our gains on long-term investments measured at fair value through profit or loss were RMB2.8 billion, RMB2.7 billion and RMB6.4 billion, respectively. Our strategic investments have not only allowed us to forge close partnerships with investee companies to create synergies across our ecosystem, but have also provided us with stable and recurring investment income.

In 2017, we established a joint venture with Hubei Yangtze River Economic Belt Industry Fund to raise an investment fund to be run by our private equity team. The investment fund is financial-return driven and dedicated to investing in world-class component and manufacturing companies situated upstream of the smart hardware value chain.

Competition

The markets for our products and services are highly competitive and we are confronted by aggressive competition in all areas of our business. These markets are characterized by frequent product introductions and rapid technological advances that have substantially increased the capabilities and use of mobile communication and media devices, laptops and other smart devices. We generally compete with other internet companies for user time spent. Principal competitive factors important to us include product features, relative price and performance, product quality and reliability, design innovation, software integration and user experience, marketing and distribution capability, service and support and corporate reputation. Our main competitors include domestic and global internet industry leaders, as well as major producers of smart devices including Apple, Samsung, Huawei, OPPO and Vivo.

We experience significant competition for highly skilled personnel, including management, engineers, designers and product managers. Our growth depends in part on our ability to retain our existing personnel and recruit highly skilled employees.

Employees

As of March 31, 2018, we had 14,513 full-time employees, 13,935 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India, Taiwan, Hong Kong and Indonesia. We expect to continue to increase our headcount in mainland China and our key target markets in the rest of the world. As of March 31, 2018, our research and development personnel, totaling 5,515 employees, were staffed across our various departments. The following table sets forth the number of our employees by function as of March 31, 2018:

Function	Number of Employees	% of Total
Sales and services	6,048	41.7
MIUI	2,275	15.7
Smartphones	1,292	8.9
Ecosystem	955	6.6
Administration	852	5.9
AI and cloud platform	700	4.8
Global	618	4.2
IT	450	3.1
Smart TV	435	3.0
Others	888	6.1
Total	14,513	100.0

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of March 31, 2018, over 5,500 employees of ours held share-based awards. As a result, we have successfully attracted and retained qualified employees, in particular our core employees.

We primarily recruit our employees in mainland China, in particular engineers and technicians, through recruitment agencies, on-campus job fairs and online channels including our corporate website and social networking platforms. We recruit our overseas employees primarily through recruitment agencies and referrals. We have adopted a training policy, pursuant to which management, technology and other trainings are regularly provided to our employees by internal speakers and third-party consultants.

As required under the regulations of the mainland China, we participate in various employee social security insurance programs that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit insurance, under which we make contributions at specified percentages of the salaries of our employees. Bonuses are generally discretionary and based in part on employee performance and in part on the overall performance of our business. We have granted and plan to continue to grant share-based incentive awards to our employees in the future to incentivize their contributions to our growth and development. Outside of mainland China, we have provided benefits to employees in compliance with local laws and regulations.

We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Track Record Period.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering all risks of physical loss, destruction or damage to the inventory of our products and our fixed assets. We also maintain public liability insurance for our Mi Homes in mainland China to protect against a variety of claims, including bodily injury, property damage and personal injury, that may arise from the business operations of our Mi Homes. In addition, we have purchased construction all risks insurance for our Mi Homes under construction, which provides coverage for property damage and third-party injury or damage claims that may arise from the construction projects. We maintain product liability insurance for our ecosystem hardware products sold in North America. We also maintain trade insurance for our overseas transactions in certain other markets.

In line with general market practice, we do not maintain any business interruption insurance, which is not mandatory under the relevant laws of the mainland China. We do not maintain key-man life insurance or insurance policies covering damages to our IT infrastructure or information technology systems. We also do not maintain insurance policies against risks relating to the Contractual Arrangements. During the Track Record Period, we did not make any material insurance claims in relation to our business. See "Risk Factors—Risks Relating to Our Business and Industry—We have limited insurance coverage which could expose us to significant costs and business disruption."

Properties

As of April 30, 2018, we operated our businesses through 301 leased properties and five self-owned properties in mainland China, India, Indonesia, Russia, Hong Kong, Thailand, Vietnam, Mexico, Spain, Poland, USA, Pakistan and UAE. Our leased and self-owned properties in mainland China and leased properties in India serve as our offices, Mi Home retail stores, research and development centers, and customer service centers, while those in other countries and regions serve as our offices. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules and are principally used as office premises for our business operations and retail outlets. We believe that, given that we have outsourced the assembling of our products, and there is sufficient supply of properties in mainland China and the countries and regions in which we have premises, we do not rely on the existing leases or self-owned properties for our business operations.

According to Section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this **[REDACTED]** is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance, which requires a valuation report with respect to all our interests in land or buildings, for the reason that as of March 31, 2018, each of our property interests had a carrying amount below 15% of our consolidated total assets.

Owned Properties

Land and buildings

The following table sets forth a summary of the land use rights we owned in mainland China as of March 31, 2018:

No.	Description/Location	Gross Site Area (square meters)	Existing Use	Expiry Date
1	Yizhuang, Beijing	106,517.9	Office space	November 2, 2065
2	Haidian, Beijing	43,991.4	Office space	April 12, 2066
3	Guangzhou, Guangdong	12,013.0	Office space	February 19, 2056 or February 19, 2066

As of the Latest Practicable Date, we have obtained certificates for all of the above-listed land use rights. The authorized periods of the land use rights were 40 to 50 years.

As of the Latest Practicable Date, we are in the process of the constructing new office buildings for our planned Xiaomi Campus on the parcel of land located in Haidian, Beijing (the "**Campus**"). We have obtained confirmation from the relevant building construction authorities that the construction of the Campus is in compliance with relevant laws and regulations and the quality of construction work is satisfactory. We also obtained confirmations from relevant fire-control and public security authorities that the Campus meets the relevant fire-control standards and do not violate any fire-control laws or regulations. We inspect and maintain the properties on a regular basis with a view to ensuring satisfactory safety conditions. Based on the safety records and measures that we have taken, we believe all of our buildings are fit for commercial related usage.

Leased Properties

As of the Latest Practicable Date, 37 of the lessors of 238 properties we leased in mainland China had not provided us with valid title certificates, valid title certificate for commercial purpose or relevant authorization documents evidencing their rights to lease the properties to us. As a result, these leases may not be valid, and there are risks that we may not be able to continue to use such properties.

Pursuant to the applicable laws and regulations of the mainland China, property lease contracts must be registered with the local branch of the Ministry of Housing and Urban Rural Development of the mainland China. As of the Latest Practicable Date, we had not completed 234 lease registration for 238 properties we leased in mainland China, primarily due to the difficulty of procuring our lessors' cooperation to register such leases. The registration of such leases will require the cooperation of our lessors. We will take all practicable and reasonable steps to ensure that such leases are registered. JunHe LLP, our legal advisor as to the laws of mainland China, has advised us that the lack of registration of the lease contracts will not affect the validity of the lease agreements under the laws of mainland China, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration of each lease. According to the Management Rules of Commodity House Leasing (《商品房屋租賃管理辦法》), the estimated total maximum penalty is approximately RMB2.3 million under the Administrative Measures for Commodity Housing Tenancy.

Health, Safety and Environmental Matters

We engage outsourcing partners to assemble our hardware products developed in-house and rely on partners to supply finished ecosystem hardware products. We do not operate any manufacturing or assembling facilities. We only operate some of the key warehouses and engage third parties for delivery of our products. Therefore, we are not subject to significant health, safety or environmental

risks. To ensure compliance with applicable laws and regulations, from time to time, our human resources department would, if necessary and after consultation with our legal advisors, adjust our human resources policies to accommodate material changes to relevant labor and safety laws and regulations. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other penalties due to non-compliance with health, safety or environmental regulations.

Corporate Social Responsibility

Since our founding, we have been highly committed to sustainable corporate responsibility projects, both through charitable endeavors and by extending the benefits of our ecosystem to the community at large. For example, we actively participate in disaster relief efforts and are an avid supporter of medical care. We believe the best approach to corporate social responsibility is through embedding elements of social responsibility in our business model.

Job Opportunities

The breadth of our ecosystem and the range of different types of product and service providers needed within it create employment opportunities. In addition to providing direct business opportunities for our hardware and internet service partners, our ecosystem has created new opportunities for service providers in manufacturing, logistics, training and other technology or internet professions.

Legal Proceedings and Compliance

Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we are involved in legal or other disputes arising in the ordinary course of our business. The majority of the legal proceedings involve intellectual property claims initiated by us to protect intellectual properties owned by or licensed to us. The legal proceedings against us include claims brought by other technology companies and smartphone manufacturers relating to intellectual property infringement. See the section headed "Risk Factors—Risks Relating to Our Business and Industry—We could be impacted by unfavorable results of legal and administrative proceedings, such as being found to have infringed on intellectual property rights."

Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, there were no legal proceedings pending or threatened against us or any of our Directors that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations.

Compliance

During the Track Record Period and up to the Latest Practicable Date, we have had certain incidents of non-compliance relating to some of our business qualifications, none of which we believe could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations, and none of which is material to our Group as a whole.

Our game business

Our Directors believes that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As advised by JunHe, pursuant to applicable mainland China laws and regulations, any entity that provides internet games to the public through information networks is required to have an Online Publishing Service License.

Beijing Wali Internet and Xiaomi Inc., our consolidated affiliated entities, operate an online game distribution business. Neither Beijing Wali Internet nor Xiaomi Inc. holds an Online Publishing Service License. As advised by JunHe, the maximum potential penalty for operating without Online Publishing Service License includes order to suspend business for rectification and revocation of ICP License or shutdown of the website. Beijing Wali Internet has applied for Online Publishing Service License, while Xiaomi Inc. is in the process of preparing an application for Online Publishing Service License which we expect to submit before the **[REDACTED]**. Based on our understanding of the process involved and communication with the relevant authorities, it is uncertain when we will be able to obtain the required licenses.

Beijing Wali Internet and Xiaomi Inc. cooperate with publishers that hold Online Publishing Service Licenses in their online game distribution businesses. With a view to understanding the potential impact of such non-compliance on our operations, we, assisted by JunHe, conducted an interview with the relevant government authorities, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television ("**Beijing BPPRFT**") in April 2018. Beijing BPPRFT confirmed to us that it recognizes cooperation with qualified publishers in online games distribution business as an interim arrangement before the Online Publishing Service License is obtained. JunHe is of the view that Beijing BPPRFT is the competent authority with the requisite knowledge to provide the relevant confirmation.

For the years ended December 31, 2015, 2016 and 2017, the revenue generated in connection with the provision of these services contributed less than 0.04% of our total revenue in each of these periods, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

Our online reading business

Our Directors believe that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that publishes and distributes original literary or comic works is required to have License for Online Publishing Service License with the publication and distribution of original literary or comic works approved as a specific item.

Beijing Duokan publishes and distributes original literary and comic works through its platform. However, the permitted items of Online Publishing Service License held by Beijing Duokan does not include the publication and distribution of original literature or comic works approved as a specific item.

The maximum potential penalty for operating with an Online Publishing Service License but without the publication and distribution of original literature or comic works approved as a specific item includes the issuance of warning and order to rectify, and in the event of a serious violation, order to suspend business for rectification and revocation of Online Publishing Service License.

Our business of publication and distribution of original literature and comic work is one of our peripheral businesses. For the years ended December 31, 2015, 2016 and 2017, the revenue generated in connection with the provision of these services contributed less than 0.2% of our total revenue in each of these periods, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

Our video business

Our Directors believes that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that conducts video streaming business is required to have License for Transmission of Audio-Visual Programs through Information Network ("**Audio-Visual Programs License**"). Xiaomi Inc. operates Mi Video, Fast Video, Onlooker Video, Wanna Video and Mi Live. All the videos on Mi Video are directed to third-party websites that hold the requisite license. As communicated with Beijing BPPRFT, we believe that Xiaomi Inc. is not required to hold any license with respect to the operation of Mi Video. However, certain videos on Onlooker Video and Wanna Video, and certain non-live streaming videos on Mi Live are directly available, and therefore, Xiaomi Inc. is required to, but does not currently hold License for Audio-Visual Programs License with respect to the operation of those video services. The maximum potential penalty for operating without this license includes order to suspend services, seizure of related equipment used for such illegal activities and a fine of one to two times of the total investment in the business.

According to the applicable mainland China laws, only entities wholly-owned or controlled, directly or indirectly, by the state are eligible to apply for Audio-Visual Programs License. Xiaomi Inc. is not eligible to apply for this license.

Our video business on Fast Video, Onlooker Video, Wanna Video and Mi Live (non-live streaming related) is one of our peripheral businesses. For the years ended December 31, 2015, 2016 and 2017, the revenue generated in connection with the provision of these services, consisting solely of advertising revenue, contributed nil, nil and less than 0.02% of our total revenue, respectively, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

Our cloud service business

Our Directors believe that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that conducts cloud service business aimed at the public is required to have Value-added Telecommunication Business License with Internet Data Center services (including internet resources cooperation services) ("**Telecommunication License**"). Xiaomi Inc. operates Mi Cloud that provides cloud services to our users. It also provides cloud services to our ecosystem partners. Xiaomi Inc. is required to, but currently does not hold Telecommunication License. The maximum potential penalty for operating without this license includes confiscation of illegal gains and a fine between three times and five times of the illegal gains, and order to suspend services and blacklist on "the list of untrustworthy telecommunication operators."

With a view to understanding the potential impact of such non-compliance on our operations, we, assisted by JunHe, conducted an interview with the relevant government authority, the Ministry of Industry and Information Technology (the "**MIIT**") in March 2018. The MIIT confirmed to us that (i) it would not impose any penalty before Xiaomi Inc. obtains the relevant license unless a complaint is filed against Xiaomi Inc. for such non-compliance and Xiaomi fails or refuses to rectify in accordance with the rectification orders from the MIIT; (ii) it is not aware of any no substantial impediment for Xiaomi Inc. to apply for the required license. JunHe is of the view that the MIIT is the competent authority with the requisite knowledge to provide the relevant confirmation. Based on our understanding of the process involved and communication with the relevant authorities, we expect to be able to obtain the required licenses in 2018.

For the years ended December 31, 2015, 2016 and 2017, the revenue generated in connection with the provision of these services contributed less than 0.1% of our total revenues in each of these periods, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

Our news business

Our Directors believe that the non-compliance incident set forth below did not have a material adverse effect on our business, financial condition or results of operations during the Track Record Period.

As required by the applicable mainland China laws and regulations, any entity that conducts news and media business is required to have an Internet News Information Service License. Xiaomi Inc. operates Mi Browser, which displays to Mi Browser users, among others, news provided by a third party that holds Internet News Information Service License through our cooperation with such third party. We communicated with Beijing Municipal Cyberspace Administration in April 2018. Beijing Municipal Cyberspace Administration confirmed to us that (i) Beijing Municipal Cyberspace Administration has no objection to the abovementioned cooperation between us and the third party holding Internet News Information Service License; and (ii) the issuance of Internet News Information Service License will be highly restrictive in the near future. It is worth noting that Xiaomi Inc. may still be required to hold its own Internet News Information Service License by Beijing Municipal

Cyberspace Administration. We are in the process of preparing application for this license. However, we expect that it will be difficult for us to obtain such license, and our operation of news business without Internet News Information Service License may be deemed as a violation by Beijing Municipal Cyberspace Administration. The maximum potential penalty for operating without this license includes order to suspend such service and a fine of RMB10,000 to RMB30,000. JunHe is of the view that Beijing Municipal Cyberspace Administration is the competent authority with the requisite knowledge to provide the relevant confirmation.

Our news business is one of our peripheral businesses. For the years ended December 31, 2015, 2016 and 2017, the revenue generated in connection with the provision of these services, consisting solely of advertising revenue, contributed nil, less than 0.2% and less than 0.3% of our total revenue, respectively, which is immaterial. Our Directors are of the view that the above situation did not and will not have a material adverse effect on our business, financial condition or results of operations. Our Directors have confirmed that we have not been subject to any regulatory notice, fines, penalties or enforcement actions on account of such non-compliance.

Internal Control Measures

The historical non-compliances mentioned above were primarily attributable to administrative oversight, inadequate regulatory risk monitoring management, and the relevant business managers being unfamiliar with and lack of comprehensive understanding of the applicable requirements.

With the assistance of our internal control consultant, we have enhanced our internal control measures with a view to prevent further occurrences. Among other things, our internal control consultant reviewed our license update and renewal procedures. Based on the recommendations of our internal control consultant, we have implemented enhanced procedures, including proper documentation and more efficient internal approval process for license updates and renewals. In addition, our Directors believe that we have established adequate internal control measures to ensure that we will be able to obtain and maintain all the material government filings, approval and permits required for our business operation. Such measures include:

- establishing an audit committee comprising of a majority of independent non-executive Directors to supervise our internal control systems;
- our legal department will continue to oversee our legal and regulatory compliance related matters, including closely monitoring any updates to applicable laws and regulations;
- we will retain external legal advisor(s) to advise on compliance matters when necessary; and
- developing additional measures, including implementation of internal policies and provision of training programs to the relevant personnel.

Views of our Directors on non-Compliance

Our Directors take the view that, based on the foregoing, no non-compliance incidents had a material adverse effect on our business, financial condition or results of operations during the Track Record Period. We have adopted internal control measures to prevent future non-compliance.

Risk Management and Internal Control

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider to be appropriate for our business operations, and we are dedicated to continuously improving these systems.

We have adopted and implemented comprehensive risk management policies in various aspects of our business operations such as financial reporting, information system, internal control, human resources and investment management.

Financial Reporting Risk Management

We have in place a set of accounting policies in connection with our financial reporting risk management, such as financial reporting management policies, budget management policies, financial statement preparation policies and finance department and staff management policies. We have various procedures in place to implement accounting policies and our finance department reviews our management accounts based on such procedures. We also provide regular training to our finance department staff to ensure that they understand our financial management and accounting policies and implement them in our daily operations.

As of March 31, 2018, our finance department consisted of 358 employees. It is headed by our Chief Financial Officer.

Information System Risk Management

Sufficient maintenance, storage and protection of user data and other related information is critical to our success. We have implemented relevant internal procedures and controls to ensure that user data is protected and that leakage and loss of such data is avoided. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material information leakage or loss of user data.

At the enterprise level, we established a systematic and universal user account authorization and management mechanism based on which we periodically review the status of user accounts and the related authorization information. We regularly perform security configuration assessment on our databases and servers and implement procedures for system log management.

We have in place a series of back-up management procedures. For our AI and cloud platforms, we deploy different back-up mechanisms including local back-ups and offsite back-ups depending on the needs of our business to minimize the risk of user data loss or leakage. For our information department, we establish protocols for the design, implementation and monitoring of offsite back-ups. We perform data recovery tests on regular basis and retain relevant records.

We provide information security training to our employees and conduct ongoing trainings and discuss any issues or necessary updates from time to time. We also have an emergency response mechanism to evaluate critical risks, formulate disaster response plans and perform emergency drills on a regular basis.

As of March 31, 2018, our AI and cloud platform and IT departments consisted of 1,150 employees in total. The teams are collectively responsible for our IT systems and infrastructure. Among other things, these include ensuring that the usage, maintenance and protection of user data are in compliance with our internal rules and the applicable laws and regulations.

Internal Control Risk Management

We have designed and adopted strict internal procedures to ensure the compliance of our business operations with the relevant rules and regulations. Our internal control and internal audit team had approximately 20 employees as of March 31, 2018. The team works closely with our business units to (i) perform risk assessments and give advice on risk management strategies, (ii) improve business process efficiency and monitor internal control effectiveness, and (iii) promote risk awareness throughout our Company.

In accordance with our procedures, our in-house legal department, which consists of over 70 employees, examines the contract terms and reviews all relevant documents for our business operations, including licenses and permits obtained by the counterparties to perform their obligations under our business contracts and all the necessary underlying due diligence materials, before we enter into any contract or business arrangements.

We also have detailed internal procedures in place to ensure that our in-house legal department reviews our products and services, including upgrades to existing products, for regulatory compliance before they are made available to the general public. Our in-house legal department is responsible for obtaining any requisite governmental pre-approvals or consents, including preparing and submitting all necessary documents for filing with relevant government authorities within the prescribed regulatory timelines.

We also have certain compliance teams for our internet finance business, which are responsible for the formulation and implementation of internet finance related-policies and analysis of the regulatory environment with respect to services we provide.

For IP related issues, we have devoted and specialized outside IP legal advisors, in addition to our in-house legal department, to assist us in registering, and applying and reviewing the relevant patent and trademark rights of our IPs.

We continually review the implementation of our risk management policies and measures to ensure our policies and implementation are effective and sufficient.

Human Resources Risk Management

We have in place an employee handbook and a code of conduct approved by our management and have distributed them to all our employees. We set out a variety of internal rules and guidelines in our employee handbook, including best commercial practice, work ethics and prevention mechanism to avoid fraud, negligence and corruption. We provide employees with regular training and resources to keep them abreast of the guidelines contained in the employee handbook. We formulate recruitment plan for the upcoming year based on current turnover rate and our future business plan, and we constantly improve our recruitment process with the aid of information technology. We also have a rigorous background check process for our incoming employees.

In addition, we provide regular and specialized training tailored to the needs of our employees in different departments. We have a training center which regularly organizes internal training sessions conducted by senior employees or external consultants on topics critical to our business operations. The training center schedules regular training, reviews the content of the training, and follows up with employees to evaluate the impact of such training. Through such training, we ensure that our employees' skill sets remain up-to-date.

We also have in place an Anti-Corruption Policy to safeguard against corruption within our Company. We have an internal reporting channel that is open and available for our employees to report

any suspected corrupt acts. Our employees can also make anonymous reports to our internal anti-corruption department. We have a team that is responsible for investigating the reported incidents and taking appropriate measures.

Investment Risk Management

We set up an annual investment plan in line with our business strategies.

We generally intend to hold our investments for the long term. Our investments are generally made in the form of preferred shares (in the case of companies incorporated outside of mainland China) or ordinary shares with preference rights (in the case of companies incorporated in mainland China). In order to manage the potential risks associated with investments, we generally request our investee companies to grant us customary minority investor protective rights.

Our investment department is responsible for investment project sourcing, screening, execution and portfolio management. The department sources investment projects in accordance with our investment strategy, and conducts thorough pre-investment due diligence to assess the risks and potential of the investment projects. We employ different levels of approval and due diligence mechanisms corresponding to the specific circumstances involved in an investment project. For proposed investments below a certain threshold within our annual budget, certain authorized senior vice presidents managing certain business units can directly approve such investments, provided they notify the investment department, the Chief Financial Officer and the Chief Executive Officer. If a proposed investment reaches certain thresholds, then depending on the threshold, the proposed investment project will need to be submitted to (i) our Chief Financial Officer, (ii) Chief Executive Officer plus Chief Financial Officer, or (iii) our Board, for approval. After obtaining the approval from the relevant level of approval authority, the department then drafts and issues term sheets, which set out the principal investment terms. Once the term sheets are mutually agreed, the department will conduct legal, business, financial and operational due diligence on the target companies. Upon completion of due diligence, the investment will be executed by the investment department.

In addition, our investment department is responsible for monitoring the performance of each investment on a regular basis. The department is also responsible for preparing analysis reports and provide recommendations on measures to reduce any risks involved in each investment project. We have management procedures in place for our investment projects and file documentation to ensure that each investment decision and project is properly documented and archived. All decisions in connection with asset disposal are required to be documented with details of consideration and approvals from the responsible personnel.

Audit Committee Experience and Qualification and Board Oversight

We have established an audit committee to review and supervise our financial reporting process and internal control system and monitor the implementation of our risk management policies across our Company on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our business operations. The audit committee consists of three members, namely Chen Dongsheng, Koh Tuck Lye and Wong Shun Tak. Chen Dongsheng and Wong Shun Tak are independent non-executive Directors and Koh Tuck Lye is a non-executive Director. Wong Shun Tak is the chairman of the audit committee. For the professional qualifications and experiences of the members of our audit committee, see "Directors and Senior Management."

We also maintain an internal audit department which is responsible for preparing and implementing risk management policies, reviewing the effectiveness of such polices and reporting to the audit committee on any issues identified. Our internal audit department members hold regular meetings to discuss any internal control issues we face and the corresponding measures to implement toward resolving such issues. The internal audit department reports to the audit committee to ensure that any major issues identified thus are channeled to the committee on a timely basis. The audit committee then discusses the issues and reports to the Board if necessary.

Ongoing Measures to Monitor the Implementation of Risk Management Policies

Our audit committee, internal audit department and senior management together monitor the implementation of our risk management policies on an ongoing basis to ensure our policies and implementation are effective and sufficient.

Licenses, Permits and Approvals

Our Directors, as advised by JunHe, confirm that as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations in mainland China, except as disclosed in this **[REDACTED]**. The following table sets forth details of our material licenses and permits:

License/Permit	Holder	Grant Dates	Expiration Dates	Description of the License/Permit
ICP License	Beijing Wali Internet	October 12, 2016	October 12, 2021	Internet information services excluding news, publication, education, medical care, drug and medical instruments and electronic bulletin services
ICP License	Xiaomi Inc.	September 6, 2016	September 6, 2021	Internet information services excluding news, publication, education, medical care, drug and medical instruments and electronic bulletin services
ICP License	Beijing Duokan	April 11, 2018	April 11, 2023	Information service business (limited to internet information service) including publication, excluding information search service and information instant interaction service
Added-Value Telecommunications Business License	Xiaomi Inc.	July 21, 2016	May 7, 2020	Domestic multi-party communications in Type 2

License/Permit	Holder	Grant Dates	Expiration Dates	Description of the License/Permit
Added-Value Telecommunications Business License	Jiefu Ruitong Inc. (捷付睿通股份有限公司)	June 30, 2016	June 30, 2021	Type 1: Information service business (excluding internet information service covering Inner Mongolia); Type 2: Information service business (limited to internet information service) excluding information instant interaction service and information search service
Approval of Mobile Communications Resale Service	Xiaomi Inc.	July 5, 2016	N/A	Mobile communications resale service
Online Culture Operating Permit	Beijing Wali Internet	April 26, 2018	September 18, 2019	Operating games (including issuance of virtual currency of online games), shows and plays, performance and comic products through internet
Online Culture Operating Permit	Xiaomi Inc.	April 23, 2018	January 31, 2020	Operating games and music through internet
Internet Publishing Service License	Beijing Duokan	January 1, 2017	December 31, 2021	Transmission through internet (including mobile network) of officially published books and periodicals in mainland China
Payment Business Permit	Jiefu Ruitong Inc. (捷付睿通股份有限公司)	August 29, 2016	August 28, 2021	Online payment, mobile payment, bank card receipts
Permitted business scope in its Business License	Chongqing Microcredit	July 2, 2015	—	Discount for loan bills and asset transfer within nine primary districts in Chongqing; the abovementioned business can be only conducted online outside of those nine primary districts.

License/Permit	Holder	Grant Dates	Expiration Dates	Description of the License/Permit
Insurance Brokerage Business License	Beijing Xiaomi Insurance Brokers Co., Ltd. (北京小米保險經紀有限公司)	January 6, 2017	October 1, 2018	Contemplating insurance plan, electing insurer, assisting purchase of policies, assisting insures or beneficiaries with insurance claims; reinsurance business; consultation service on risk evaluation and management of calamity, danger, injury precaution (excluding Hong Kong, Macau and Taiwan)

BACKGROUND TO THE CONTRACTUAL ARRANGEMENTS

Our Consolidated Affiliated Entities are currently the Onshore Holdcos and their respective subsidiaries, which were all established under the laws of mainland China.

As described below, investment in certain areas of the industry in which we currently and may operate are subject to restrictions under current mainland China laws and regulations. After consultation with JunHe LLP, our legal advisor as to the laws of mainland China, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in mainland China subject to foreign investment restrictions, we would gain effective control over, and have the right to receive all the economic benefits generated by the businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

In order to comply with the laws and regulations of mainland China, while availing ourselves of international capital markets and maintaining effective control over all of our operations, we commenced a series of reorganization activities. Pursuant to the reorganization, the Contractual Arrangements currently in effect were entered into on December 1, 2017, April 11, 2018 and April 17, 2018, respectively, whereby the WFOEs acquired effective control over the financial and operational policies of our Consolidated Affiliated Entities and have become entitled to all the economic benefits derived from their operations. As a result, we do not directly own any equity interest in our Consolidated Affiliated Entities.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities and their registered shareholders; (ii) by entering into the Exclusive Business Cooperation Agreement with the WFOEs, which are mainland China subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the **[REDACTED]**, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

LAWS AND REGULATIONS OF MAINLAND CHINA RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the mainland China are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the "**Catalog**"), which was promulgated and is amended from time to time jointly by MOFCOM and NDRC. The Catalog divides industries into four categories in terms of foreign investment, namely, "encouraged," "restricted," "prohibited" and "permitted" (the last category of which includes all industries not listed under the "encourage," "restricted" and "prohibited" categories).

As confirmed by JunHe, our Consolidated Affiliated Entities conduct the following businesses which are considered "prohibited" where foreign investment is strictly prohibited: (i) operation of online culture business; (ii) Internet audio-visual program service; (iii) Internet publication business and (iv) news business (collectively the "**Prohibited Business**").

As confirmed by JunHe, our Consolidated Affiliated Entities conduct the following businesses which are considered "restricted" where foreign investors are restricted from holding more than 50%

equity interests in companies providing such services or shall meet certain qualification requirements: (i) e-commerce marketplace business; (ii) cloud storage service and other value-added telecommunications service business; and (iii) resales of mobile communication products (collectively the "**Restricted Business**").

As confirmed by JunHe, our Consolidated Affiliated Entities also conduct an insurance brokerage business which is subject to qualification requirements that we do not satisfy (together with the Prohibited Business and Restricted Businesses, the "**Relevant Businesses**").

Further, while we currently do not engage in the following businesses, we may do so in the future: (i) radio and television program production and operation; (ii) film distribution; (iii) sales of securities investment fund; (iv) personal credit investigation and (v) additional value added telecommunication service business. As confirmed by JunHe, these business are or may be subject to foreign investments restrictions.

We operate the Relevant Businesses under the Contractual Arrangements and are of the view that the Contractual Arrangements are narrowly tailored for the reasons below.

(i) E-commerce marketplace business

Xiaomi Inc. possesses an ICP License which is needed to carry out our e-commerce marketplace business and is engaged in internet information services.

Although our Group's direct sales business is not a restricted business for foreign investment, it is essential for our Group to conduct both our direct sales business and our marketplace business using the same domain name and website, as we aim to provide our customers with a convenient solution to satisfy all of their procurement needs for our products. An integrated direct sales and marketplace platform also allows us to more effectively collect and analyze customer data to improve our marketing, merchandising and inventory management. Our direct sale business is operated by our WFOE, Xiaomi Communications, and its wholly-owned subsidiaries, Zhuhai Xiaomi Communications Co., Ltd. and Guangzhou Xiaomi Communications Co., Ltd., rather than Xiaomi Inc. Xiaomi Communications, Zhuhai Xiaomi Communications Co., Ltd. and Guangzhou Xiaomi Communications Co., Ltd. enter into sale contracts with customers and get paid from customers accordingly and Xiaomi Inc. does not enter into any contracts with customers relating to our direct sales business. Xiaomi Communications, Zhuhai Xiaomi Communications Co., Ltd and Guangzhou Xiaomi Communications Co., Ltd. merely sell our products and provide after-sales services by way of using the website operated by Xiaomi Inc. There is no mandatory legal requirement that Xiaomi Communications, Zhuhai Xiaomi Communications and Guangzhou Xiaomi Communications Co., Ltd. shall own their own websites to sell products to customers. Xiaomi Inc. plays a role as the provider of an integrated direct sales and market place platform for our Group which enables our customers to enjoy a convenient and comprehensive purchase experience.

The provision of internet information services in mainland China is mainly regulated by the Administrative Measures on Internet Information Services (互聯網信息服務管理辦法) (the "**Internet Measures**"), according to which "Internet Information Services" are categorized into (i) "Operational Internet Information Services," which are defined as services involving the provision of information or website-design services through the Internet to Internet-users for a fee; and (ii) "Non-operational Internet Information Services," which are defined as services involving the provision of public and

sharable information through the internet to internet-users free of charge. Pursuant to the Internet Measures, a provider of Operational Internet Information Services is required to obtain an ICP Licence, while a provider of Non-operational Internet Information Services is only subject to a filing requirement (i.e., the filing of the domain name with the competent bureau of telecommunications). We conducted an interview in March 2018 with the Ministry of Industry and Information Technology (工業和信息化部) (the "**MIIT**") which is the ultimate authority to approve applications for the operation of Internet Information Services. The MIIT confirmed to us that Xiaomi Inc. shall hold an ICP License for our e-commerce marketplace business.

Although ICP Licences have been granted to sino-foreign equity joint ventures in very limited circumstances in the past, the MIIT also confirmed to us that applications for ICP Licenses by sino-foreign equity joint ventures established by our Company will not be approved at present. JunHe is of the view that the MIIT is the competent authority to give the relevant confirmation.

(ii) Cloud storage service and other value-added telecommunications service business

With respect to our cloud storage service business, we provide cloud data backup services to our personal end-users and our ecosystem companies. The provision of these services are regarded as the business of internet data centre under the Telecommunication Business Catalogue 2015《電信業務分類目錄（2015年）》and are regarded as value-added telecommunication services. The running of this business would require the Value-added Telecommunication Business Operation Permit with Internet Data Center services (including internet resources cooperation services) ("**IDC License**"). The MIIT has confirmed to us that we are currently unable to obtain an IDC License by using a sino-foreign equity joint venture or wholly-owned foreign investment entity. Therefore we are of the view that the Contractual Arrangements are narrowly tailored and we are required to carry out our cloud storage service business through the Contractual Arrangements.

With respect to our other value-added telecommunications services businesses such as our mobile application store and third-party payment services through our online platform, as advised by JunHe, since they involve the provision of internet information services they require an ICP License under relevant mainland China laws and regulations. The MIIT has confirmed that we are currently unable to obtain an ICP License through any sino-foreign equity joint venture or wholly-owned foreign investment entity as mentioned above, we are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to apply for an ICP License through a sino-foreign equity joint venture or wholly-owned foreign investment entity structure and we are therefore required to carry out our value-added telecommunications services through the Contractual Arrangements.

(iii) Resales of mobile communication products

Based on the Notice regarding the Launching of Pilot Scheme for Resale of Mobile Communications issued by the MIIT《工業和信息化部關于開展移動通信轉售業務試點工作的通告》(the "**Notice**") and its appendix Pilot Scheme for Resale of Mobile Communications《移動通信轉售業務試點方案》as issued by MIIT on May 17, 2013, resale of mobile communications is regarded as basic telecommunications services. According to the FITE Regulations (as define below), the proportion of capital contributed by the foreign investor in a foreign-invested telecommunications enterprise engaged in basic telecommunications services (other than radio paging services) shall not ultimately exceed 49%, while the major foreign investor in a foreign-invested telecommunications

enterprise engaged in basic telecommunications business shall possess a license for engaging in basic telecommunications business in the country or region where the foreign investor is registered and must possess prior experience in operating basic telecommunications businesses and a proven track record of business operations overseas. Circular on Formal Commercialization for Resale of Mobile Communications《關于移動通信轉售業務正式商用的通告》 was issued by the MIIT which takes effect on May 1, 2018, pursuant to which foreign-invested enterprises could apply for operating resale of mobile communications in compliance with the applicable mainland China laws and regulations. However, the MIIT confirmed to us that (i) the current policy in mainland China is not to allow any sino-foreign equity joint venture to operate the resales of mobile communication products and (ii) even if the Circular is implemented, it is still difficult for a sino-foreign equity joint venture, subject to a maximum equity ownership of 49%, to obtain the approval to conduct this business. We are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to carry out our resale of mobile communications by a sino-foreign equity joint venture or wholly-owned foreign investment entity but through the Contractual Arrangements.

(iv) Insurance brokerage

According to the Provisions on the Supervision and Administration of Insurance Brokers (Revised in 2015) (保險經紀機構監管規定), the China Banking and Insurance Regulatory Commission (the "**CBIRC**") shall be responsible for the supervision of insurance brokers within the scope authorized by the State Council, and is the authority to approve operation of insurance brokerage business and to issue the Insurance Brokerage Business License. The CBIRC issued a guidance memorandum on the application requirements for establishing foreign-invested insurance brokerage enterprises in mainland China, according to which, the foreign shareholder is required to satisfy, among other things, requirements that (1) the foreign investor shall be a foreign insurance company established in a World Trade Organization member country and have 30 years of experience in this field; (2) the foreign investor has had a representative office in mainland China for two consecutive years; and (3) the total assets of the foreign investor shall exceed US$200 million at the end of the year before the application is filed. None of the entities in our Group could meet such requirements and we are of the view that the Contractual Arrangements are narrowly tailored because it is currently not feasible for us to apply for an Insurance Brokerage Business License through a sino-foreign equity joint venture or wholly-owned foreign investment entity structure. Therefore, in order to carry out our insurance brokerage business we have adopted the Contractual Arrangements.

With a view to eventually operating our own insurance brokerage business by way of directly holding the equity interest, our Group is currently exploring a potential acquisition target that satisfies the above qualification requirements, following which we could reorganize our insurance brokerage business under direct equity ownership. Subsequently, we would not need to run the business by way of the Contractual Arrangements. As of the Latest Practicable Date, we had not identified any qualified acquisition target. After we have identified a target and an agreement is reached regarding the terms of the acquisition, we will comply with the requirements under the Listing Rules as appropriate regarding the acquisition and will unwind and terminate the Contractual Arrangement relating to the insurance brokerage business. JunHe has confirmed that subject to the acquisition target possessing the necessary qualities to meet the application requirements to apply for an Insurance Brokerage Business License, our plan to meet such requirements should be sufficient to do so, subject to a substantive examination by the CBIRC in accordance with applicable PRC laws and regulations.

The revenue attributable from our insurance brokerage business accounted for nil, 0.01% and 0.01% of our total revenue during the Track Record Period and the net profit attributable from our insurance brokerage business accounted for nil, 0.63% and 0.11% of our net profit during the Track Record Period.

(v) Minority investments and our business "ecosystem"

Furthermore, in our ordinary course of business we make minority investments in a large number of companies. These companies are generally members of the broader "ecosystem" related to our business and provide products, services and/or resources that we believe can help us efficiently expand product and service offerings to our users, have developed proprietary technologies complementary to ours, or have the ability to help us enter into new markets. These investments are primarily made through subsidiaries of our Consolidated Affiliated Entity Xiaomi Inc. (namely, Tianjin Jinxing Investment Co., Ltd. (天津金星投資有限公司) and Tianjin Gold Mi Investment Partners (Limited Partnership) (天津金米投資合夥企業(有限合夥)). The majority of the investments involve amounts less than RMB20 million. The investments are passive, non-controlling interests that are classified as financial assets carried at fair value and are neither consolidated in our financial statements nor form part of our Group. None of the investments are material to us. Given their immateriality and the fact that we do not consolidate or control them, and for the reasons outlined above, our Directors consider that our Contractual Arrangements are narrowly tailored.

These investments are investments classified as financial assets carried at fair value through profit or loss and are not consolidated into our Group's financial statements. Changes in the fair value are included in profit or loss in the period in which they arise and presented within "Fair value changes on investments" in the income statement. Upon disposal, the difference between the net sale proceeds and the carrying amount is also included in the income statement as "Other (losses)/gains, net."

To the extent that we acquire control over an investee company in the future, and depending on the nature of the business conducted by the investee company, we will consider restructuring the ownership of the investee company to a direct or indirect subsidiary of our Company.

Therefore, we are of the view that the Contractual Arrangements are narrowly tailored, as they are used to enable our Group to conduct businesses in industries that are subject to foreign investment restrictions in mainland China. We will unwind and terminate the Contractual Arrangements wholly or partially once our businesses are no longer prohibited or restricted from foreign investment.

QUALIFICATION REQUIREMENTS UNDER THE FITE REGULATIONS

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including internet content provision services. In addition, a foreign investor who invests in a value-added telecommunications business in mainland China must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently none of the applicable mainland China laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. According to our consultation with the MIIT in March 2018, it confirms that there is no

clear guidance about how a foreign investor could meet the Qualification Requirements, and it applies a relatively strict standard for identifying whether foreign investors meet the Qualification Requirements.

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in the Onshore Holdcos or any of our Consolidated Affiliated Entities when the relevant laws of mainland China allow foreign investors to invest and to hold any equity interests in enterprises which engage in the value-added telecommunications business. For the purposes of meeting the Qualification Requirements, we are in the process of establishing and accumulating overseas operation experience, for example:

(i) we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;

(ii) Xiaomi Inc. has entered into an agreement with a third party in relation to the operation and management of the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and

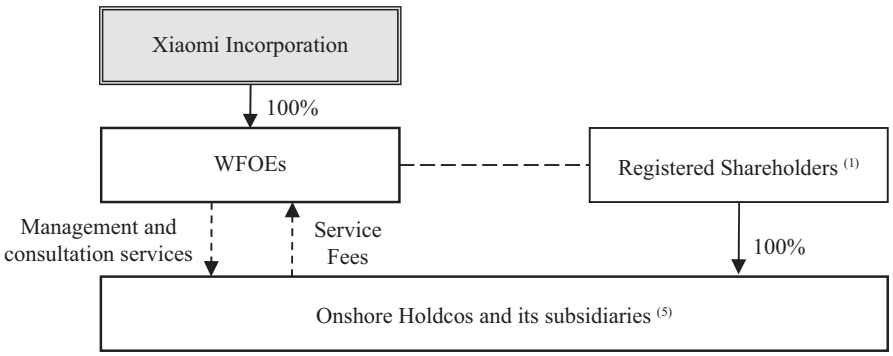
(iii) we have registered a number of domain names overseas for the purpose of promoting our products and services.

In our consultation with the MIIT, the MIIT also confirmed that the above steps taken by us may be deemed to satisfy the Qualification Requirements if we follow the above steps continuously for a period of time and have accumulated the experience in providing value-added telecommunications services in overseas markets, which is in accordance with the FITE Regulations.

We will, as applicable and when necessary, disclose the progress of our overseas business plans and any updates to the Qualification Requirements in our annual and interim reports to inform Shareholders and other investors after the **[REDACTED]**. We will also make periodic inquiries to relevant mainland China authorities to understand any new regulatory development and assess whether our level of overseas experience is sufficient to meet the Qualification Requirements.

CONTRACTUAL ARRANGEMENTS

The following simplified diagram illustrates the flow of economic benefits from our Consolidated Affiliated Entities to our Group stipulated under the Contractual Arrangements.



Notes:

(1) Registered Shareholders refer to the registered shareholders of the Onshore Holdcos, namely (i) Beijing Wali Culture; (ii) Rigo Design; (iii) Xiaomi Inc.; (iv) Beijing Duokan; (v) Beijing Wali Internet; (vi) Xiaomi Pictures; (vii) Beijing Electronic Software.
   (i) Beijing Wali Culture is owned by Lei Jun (雷軍) as to 90% and Shang Jin (尚進) as to 10%.
   (ii) Rigo Design is owned by Zhu Yin (朱印) as to 61% and Li Jiong (李炯) as to 39%.
   (iii) Xiaomi Inc. is owned by Lei Jun as to 77.80%, Li Wanqiang (黎萬强) as to 10.12%, Hong Feng (洪鋒) as to 10.07% and Liu De (劉德) as to 2.01%.
   (iv) Beijing Duokan is owned by Wang Chuan (王川) as to 61.75% and Lei Jun as to 38.25%.
   (v) Beijing Wali Internet is owned by Lei Jun as to 10%, Liu Yang (劉泱) as to 65%, Liang Qiushi (梁秋實) as to 14%, Liu Jingyan (劉景岩) as to 6%, Yuan Bin (袁彬) as to 3% and Nan Nan (南楠) as to 2%.
   (vi) Xiaomi Pictures is owned by Li Wanqiang as to 87.92%, Hong Feng as to 10.07% and Liu De as to 2.01%.
   (vii) Beijing Electronic Software is owned by Lei Jun as to 90% and Hong Feng as to 10%.

(2) "—>" denotes direct legal and beneficial ownership in the equity interest.

(3) "--->" denotes contractual relationship.

(4) "----" denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos, (ii) exclusive options to acquire all or part of the equity interests in the Onshore Holdcos and (iii) equity pledges over the equity interests in the Onshore Holdcos.

(5) These include certain companies which do not currently carry out any business operations but are intended to carry out businesses which are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investmnet. For further details of the subsidiaries of the Onshore Holdcos, see the section headed "History, Reorganization and Corporate Structure—Corporate Structure."

SUMMARY OF THE MATERIAL TERMS OF THE CONTRACTUAL ARRANGEMENTS

A description of each of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs and the Onshore Holdcos is set out below.

Exclusive Business Cooperation Agreements

Under the exclusive business cooperation agreements dated December 1, 2017, April 11, 2018 and April 17, 2018, respectively, between the Onshore Holdcos and the WFOEs (the "**Exclusive Business Cooperation Agreements**"), pursuant to which, in exchange for a monthly service fee, the Onshore Holdcos agreed to engage the WFOEs as its exclusive provider of technical support, consultation and other services, including the following services:

(i) the use of any relevant software legally owned by the WFOEs;

(ii) development, maintenance and updating of software in respect of the Onshore Holdcos' business;

(iii) design, installation, daily management, maintenance and updating of network systems, hardware and database design;

(iv) providing technical support and staff training services to relevant employers of the Onshore Holdcos;

(v) providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under the laws of mainland China);

(vi) providing business management consultation;

(vii) providing marketing and promotional services;

(viii) providing customer order management and customer services;

(ix) transfer, leasing and disposal of equipment or properties; and

(x) other relevant services requested by the Onshore Holdcos from time to time to the extent permitted under the laws of mainland China.

Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the Onshore Holdcos, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions. Notwithstanding the foregoing, the WFOEs may adjust the scope and amount of services fees according to mainland China tax law and tax practices, and the Onshore Holdcos will accept such adjustments. The WFOEs shall calculate the service fee on a monthly basis and issue a corresponding invoice to the Onshore Holdcos. Notwithstanding the payment arrangements in the Exclusive Business Cooperation Agreements, the WFOEs may adjust the payment time and payment method, and the Onshore Holdcos will accept any such adjustment.

In addition, absent the prior written consent of the WFOEs, during the term of the Exclusive Business Cooperation Agreements, with respect to the services subject to the Exclusive Business Cooperation Agreements and other matters, the Onshore Holdcos shall not directly or indirectly accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Business Cooperation Agreements with any third party. The WFOEs may appoint other parties, who may enter into certain agreements with the Onshore Holdcos, to provide the Onshore Holdcos with the services under the Exclusive Business Cooperation Agreements.

The Exclusive Business Cooperation Agreements also provide that the WFOEs have the exclusive proprietary rights to and interests in any and all intellectual property rights developed or created by the Onshore Holdcos during the performance of the Exclusive Business Cooperation Agreement.

The Exclusive Business Cooperation Agreements shall remain effective unless terminated (a) in accordance with the provisions of the Exclusive Business Cooperation Agreements; (b) in writing by the WFOEs; or (c) renewal of the expired business period of either the WFOE or the Onshore Holdcos is denied by relevant government authorities, at which time the Exclusive Business Cooperation Agreements will terminate upon termination of that business period.

Exclusive Option Agreements

Under the exclusive option agreements dated December 1, 2017, April 11, 2018 and April 17, 2018, respectively, among the Onshore Holdcos, the WFOEs and the Registered Shareholders (the "**Exclusive Option Agreements**"), the WFOEs have the rights to require the Registered Shareholders to transfer any or all their equity interests in the Onshore Holdcos to the WFOEs and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred) or, if applicable, for a nominal price, unless the relevant government authorities or the mainland China laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request.

The Onshore Holdcos and the Registered Shareholders, among other things, have covenanted that:

(i) without the prior written consent of the WFOEs, they shall not in any manner supplement, change or amend the constitutional documents of the Onshore Holdcos, increase or decrease their registered capital, or change the structure of their registered capital in other manner;

(ii) they shall maintain the Onshore Holdcos' corporate existence in accordance with good financial and business standards and practices, obtain and maintain all necessary government licenses and permits by prudently and effectively operating their business and handling their affairs;

(iii) without the prior written consent of the WFOEs, they shall not at any time following the signing of the Exclusive Option Agreements sell, transfer, pledge or dispose of in any manner any material assets of the Onshore Holdcos or legal or beneficial interest in the material business or revenues of the Onshore Holdcos of more than RMB1,000,000, or allow the encumbrance thereon of any security interest;

(iv) without the prior written consent of the WFOEs, the Onshore Holdcos shall not incur, inherit, guarantee or assume any debt, except for debts incurred in the ordinary course of business other than payables incurred by a loan;

(v) the Onshore Holdcos shall always operate all of their businesses during the ordinary course of business to maintain their asset value and refrain from any action/omission that may adversely affect the Onshore Holdcos' operating status and asset value;

(vi) without the prior written consent of the WFOEs, they shall not cause the Onshore Holdcos to execute any material contract with a value above RMB1,000,000, except the contracts executed in the ordinary course of business;

(vii) without the prior written consent of the WFOEs, they shall not cause the Onshore Holdcos to provide any person with any loan or credit;

(viii) they shall provide the WFOEs with information on the Onshore Holdcos' business operations and financial condition at the request of the WFOEs;

(ix) if requested by the WFOEs, they shall procure and maintain insurance in respect of the Onshore Holdcos' assets and business from an insurance carrier acceptable to the WFOE, at an amount and type of coverage typical for companies that operate similar businesses;

(x) without the prior written consent of the WFOEs, they shall not cause or permit the Onshore Holdcos to merge, consolidate with, acquire or invest in any person;

(xi) they shall immediately notify the WFOEs of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to the Onshore Holdcos' assets, business or revenue;

(xii) to maintain the ownership by the Onshore Holdcos of all of its assets, they shall execute all necessary or appropriate documents, take all necessary or appropriate actions and file all necessary or appropriate complaints or raise necessary and appropriate defences against all claims;

(xiii) without the prior written consent of the WFOEs, the Onshore Holdcos shall not in any manner distribute dividends to their shareholders, provided that upon the written request

of the WFOEs, the Onshore Holdcos shall immediately distribute all distributable profits to their shareholders;

(xiv) at the request of the WFOEs, they shall appoint any persons designated by the WFOEs as the directors and/or senior management of the Onshore Holdcos; and

(xv) unless otherwise mandatorily required by mainland China laws, the Onshore Holdcos shall not be dissolved or liquidated without prior written consent by the WFOEs.

In addition, the Registered Shareholders, among other things, have covenanted that:

(i) without the written consent of the WFOEs, they shall not sell, transfer, pledge or dispose of in any other manner the legal or beneficial interest in the Onshore Holdcos, or allow the encumbrance thereon of any security interest, except for the Equity Pledge Agreements and the interests prescribed in the Powers of Attorney, and procure the shareholders' meeting and the board of directors of the Onshore Holdcos not to approve such matters;

(ii) for each exercise of the equity purchase option, to cause the shareholders' meeting of the Onshore Holdcos to vote on the approval of the transfer of equity interests and any other action requested by the WFOEs;

(iii) they shall relinquish the pre-emptive right (if any) he/she is entitled to in relation to the transfer of equity interest by any other shareholders to the Onshore Holdcos and give consent to the execution by each other shareholder of the Onshore Holdcos with the WFOEs and the Onshore Holdcos exclusive option agreements, equity interest pledge agreements and powers of attorney similar to the Exclusive Option Agreements, the Equity Pledge Agreements and the Powers of Attorney, and accept not to take any action in conflict with such documents executed by the other shareholders (if any); and

(iv) each of the Registered Shareholders will transfer to the WFOEs or its appointee(s) by way of gift any profit or dividend in accordance with the mainland China law.

The Registered Shareholders have also undertaken that, subject to the relevant laws and regulations, they will return to the WFOEs any consideration they receive in the event that the WFOEs exercise the options under the Exclusive Option Agreements to acquire the equity interests in the Onshore Holdcos.

The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the Onshore Holdcos have been transferred to the WFOEs or their appointee(s).

Equity Pledge Agreements

Under the equity pledge agreements dated December 1, 2017, April 11, 2018 and April 17, 2018, respectively, entered into between the WFOEs, the Registered Shareholders and the Onshore Holdcos (the "**Equity Pledge Agreements**"), the Registered Shareholders agreed to pledge all their respective equity interests in the Onshore Holdcos that they own, including any interest or dividend paid for the shares, to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts.

The pledge in respect of the Onshore Holdcos takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the

contractual obligations of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully paid.

Upon the occurrence and during the continuance of an event of default (as defined in the Equity Pledge Agreements), the WFOEs shall have the right to require the Onshore Holdcos' shareholders (i.e. the Registered Shareholders) to immediately pay any amount payable by the Onshore Holdcos under the Exclusive Business Cooperation Agreement, repay any loans and pay any other due payments, and the WFOEs shall have the right to exercise all such rights as a secured party under any applicable mainland China law and the Equity Pledge Agreements, including without limitations, being paid in priority with the equity interests based on the monetary valuation that such equity interests are converted into or from the proceeds from auction or sale of the equity interest upon written notice to the Registered Shareholders.

We expect the registration of the Equity Pledge Agreements as required by the relevant laws and regulations will be completed in accordance with the terms of the Equity Pledge Agreements and mainland China laws and regulations before the **[REDACTED]**.

Powers of Attorney

The Registered Shareholders have executed powers of attorney dated December 1, 2017, April 11, 2018 and April 17, 2018, respectively, (the "**Powers of Attorney**"). Under the Powers of Attorney, the Registered Shareholders irrevocably appointed the WFOEs and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the Onshore Holdcos, including without limitation:

(i) to convene and attend shareholders' meetings of the Onshore Holdcos;

(ii) to file documents with the relevant companies registry;

(iii) to exercise all shareholder's rights and shareholder's voting rights in accordance with law and the constitutional documents of the Onshore Holdcos, including but not limited to the sale, transfer, pledge or disposal of any or all of the equity interests in the Onshore Holdcos;

(iv) to execute any and all written resolutions and meeting minutes and to approve the amendments to the articles of associations in the name and on behalf of such shareholder; and

(v) to nominate or appoint the legal representatives, directors, supervisors, general manager and other senior management of the Onshore Holdcos.

Further, the Powers of Attorney shall remain effective for so long as each shareholder holds equity interest in the Onshore Holdcos.

Loan Agreements

In relation to Beijing Wali Culture, Xiaomi Inc. and Beijing Electronic Software only, the relevant WFOEs and their Registered Shareholders entered into loan agreements dated December 1,

2017, April 11, 2018 and April 17, 2018, respectively, (the "**Loan Agreements**"), pursuant to which the WFOEs agreed to provide loans to the Registered Shareholders, to be used exclusively as investment in the relevant Onshore Holdcos. The loans must not be used for any other purposes without the relevant lender's prior written consent.

The term of each loan commences from the date of the agreement and ends on the date the lender exercises its exclusive call option under the relevant Exclusive Option Agreement, or when certain defined termination events occur, such as if the lender sends a written notice demanding repayment to the borrower, or upon the default of the borrower, whichever is earlier.

After the lender exercises his exclusive call option, the borrower may repay the loan by transferring all of its equity interest in the relevant Onshore Holdco to the lender, or a person or entity nominated by the lender, and use the proceeds of such transfer as repayment of the loan. If the proceeds of such transfer is equal to or less than the principal of the loan under the relevant Loan Agreement, the loan is considered interest-free. If the proceeds of such transfer is higher than the principal of the loan under the relevant Loan Agreement, any surplus is considered interest for the loan under the relevant Loan Agreement.

Confirmations from the relevant Individual Shareholders

Each of the Relevant Individual Shareholders has confirmed to the effect that (i) his/her spouse does not have the right to claim any interests in the respective Registered Shareholder (together with any other interests therein) or exert influence on the day-to-day management of the respective Registered Shareholder; and (ii) in the event of his/her death, incapacity, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of the respective Registered Shareholder, he/her will take necessary actions to safeguard his/her interests in the respective Registered Shareholder (together with any other interests therein) and his/her successors (including his/her spouse) will not claim any interests in the respective Registered Shareholder (together with any other interests therein) to the effect that the Registered Shareholder's interests in the Onshore Holdcos shall not be affected.

Spouse undertakings

The spouse of each of the Relevant Individual Shareholders, where applicable, has signed an undertaking (the "**Spouse Undertakings**") to the effect that (i) the respective Relevant Individual Shareholder' interests in the respective Registered Shareholder (together with any other interests therein) do not fall within the scope of communal properties, and (ii) he/she has no right to or control over such interests of the respective Relevant Individual Shareholder and will not have any claim on such interests.

Dispute Resolution

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, in the event of any dispute arising from the performance of or relating to the Contractual Arrangements, any party has the right to submit the relevant dispute to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be confidential and the language used during arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The dispute resolution provisions also provide that the arbitral tribunal may award remedies over the shares or assets of our Onshore Holdcos

or injunctive relief (e.g. limiting the conduct of business, limiting or restricting transfer or sale of shares or assets) or order the winding up of our Onshore Holdcos; any party may apply to the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company), the mainland China and the places where the principal assets of the WFOEs or our Onshore Holdcos are located for interim remedies or injunctive relief.

However, JunHe has advised that the above provisions may not be enforceable under the mainland China laws. For instance, the arbitral tribunal has no power to grant such injunctive relief, nor will it be able to order the winding up of our Consolidated Affiliated Entities pursuant to the current mainland China laws. In addition, interim remedies or enforcement order granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognizable or enforceable in mainland China.

As a result of the above, in the event that the Onshore Holdcos or the Registered Shareholders breach any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our Consolidated Affiliated Entities and conduct our business could be materially and adversely affected. See the section headed "Risk Factors —Risks Relating to our Contractual Arrangements" in this document for further details.

Conflict of Interest

Each of the Registered Shareholders has given their irrevocable undertakings in the Powers of Attorney which address potential conflicts of interests that may arise in connection with the Contractual Arrangements. For further details, see the sub-paragraph headed "—Powers of Attorney" above.

Loss Sharing

Under the relevant mainland China laws and regulations, none of our Company and the WFOEs is legally required to share the losses of, or provide financial support to, our Consolidated Affiliated Entities. Further, our Consolidated Affiliated Entities are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOEs intend to continuously provide to or assist our Consolidated Affiliated Entities in obtaining financial support when deemed necessary. In addition, given that our Group conducts a substantial portion of its business operations in mainland China through our Consolidated Affiliated Entities, which hold the requisite mainland China operational licenses and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if our Consolidated Affiliated Entities suffer losses.

However, as provided in the Exclusive Option Agreements, without the prior written consent of the WFOEs, the Onshore Holdcos shall not, among others, (i) sell, transfer, pledge or dispose of in any manner any of its material assets of more than RMB1,000,000; (ii) execute any material contract with a value above RMB1,000,000, except those entered into in the ordinary course of business; (iii) provide any loan, credit or guarantees in any form to any third party, or allow any third party create any other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business; (v) enter into any consolidation or merger with any third party, or being acquired by or invest in any third party; and (vi) increase or reduce its registered capital,

or alter the structure of the registered capital in any other way. Therefore, due to the relevant restrictive provisions in the agreements, the potential adverse effect on the WFOEs and our Company in the event of any loss suffered from the Onshore Holdcos can be limited to a certain extent.

Liquidation

Pursuant to the Exclusive Option Agreements, in the event of a mandatory liquidation required by the mainland China laws, the shareholders of our Consolidated Affiliated Entities shall give the proceeds they received from liquidation as a gift to the WFOEs or its designee(s) to the extent permitted by the mainland China laws.

Insurance

Our Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements.

Confirmation on Interference and Encumbrance

As of the Latest Practicable Date, we had not encountered any interference or encumbrance from any mainland China governing bodies in operating its businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

Based on the above, JunHe is of the opinion that the Contractual Arrangements are narrowly tailored to minimize the potential conflict with relevant mainland China laws and regulations and that:

(i) parties to each of the Contractual Arrangements have obtained all necessary approvals and authorisations to execute and perform the Contractual Arrangements;

(ii) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder. Each of the agreements is binding on the parties thereto and none of them would be deemed as "concealment of illegal intentions with a lawful form" and void under Contract Law of the People's Republic of China (《中華人民共和國合同法》) ("**China Contract Law**");

(iii) none of the Contractual Arrangements violates any provisions of the articles of association of our Onshore Holdcos or our WFOEs;

(iv) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the mainland China governmental authorities, except that:

  (a) the exercise of the option by our WFOEs of their rights under the Exclusive Option Agreements to acquire all or part of the equity interests in our Onshore Holdcos are subject to the approvals of, consent of, filing with and/or registrations with the mainland China governmental authorities;

  (b) any share pledge contemplated under the share pledge Agreements are subject to the registration with competent administration bureau for industry and commerce; and

  (c) the arbitration awards/interim remedies provided under the dispute resolution provision of the Contractual Arrangements shall be recognized by mainland China's courts before compulsory enforcement;

(v) each of the Contractual Arrangements is valid, legal and binding under the laws of mainland China, except for the following provisions regarding dispute resolution and the liquidating committee:

(a) the Contractual Arrangements provide that any dispute shall be submitted to the Beijing Arbitration Commission for arbitration, in accordance with the then effective arbitration rules. The arbitration shall be conducted in Beijing. They also provide that the arbitrator may award interim remedies over the shares or assets of our Onshore Holdcos or injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of our Consolidated Affiliated Entities; and the courts of Hong Kong, the Cayman Islands (being the place of incorporation of our Company) and mainland China (being the place of incorporation of our Onshore Holdcos) also have jurisdiction for the grant and/or enforcement of the arbitral award and the interim remedies against the shares or properties of our Onshore Holdcos. However, JunHe has advised that the interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable in mainland China; and

(b) the Contractual Arrangements provide that the shareholders of our Onshore Holdcos undertake to appoint a committee designated by our WFOEs, subject to applicable laws and regulations, as the liquidation committee upon the winding up of our Onshore Holdcos to manage their assets. However, this provision does not apply in the event of a mandatory liquidation required by mainland China laws or bankruptcy liquidation.

The Administrative Measures for Internet Publication Service (《網絡出版服務管理規定》) (the "**Internet Publication Measures**"), were jointly promulgated by the GAPPRFT and the MIIT on February 4, 2016 and became effective on March 10, 2016. Pursuant to the Internet Publication Measures, the GAPPRFT, as the competent department of the internet publication services industry, is responsible for the prior approval, supervision and administration of the online publishing services nationwide.

The Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) (the "**Internet Culture Provisions**"), which was promulgated by the Ministry of Culture on February 17, 2011, provide that internet cultural entities are classified into operational internet cultural entities and non-operational internet cultural entities. Operational internet cultural entities shall file application for establishment to the competent culture administration authorities for approval and must obtain the online culture operating permit.

In accordance with Article 3 of Online Game Measures and Article 2 of Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the State Administration of Radio Film and Television (the "**SARFT**") and the General Administration of Press and Publication of mainland China ("**GAPP**") (《中央編辦對文化部、廣電總局、新聞出版總署〈"三定"規定〉中有關動漫、網絡游戲和文化市場綜合執法的部分條文的解釋》) (the "**Interpretation**"), provides that the GAPP will have responsibility for the examination and approval of online games to be uploaded on the internet and that, after such upload, online games will be administered by the Ministry of Culture and Tourism.

On July 6, 2005, five mainland China regulatory agencies, namely, the Ministry of Culture, SARFT, the GAPP, the CSRC and the MOFCOM, jointly adopted the Several Opinions on Canvassing Foreign Investment into the Cultural Sector (《關于文化領域引進外資的若干意見》) (the "**Opinion on**

Canvassing Foreign Investment"). According to the Opinion on Canvassing Foreign Investment, foreign investors are prohibited from engaging in such business as the internet publication. According to the Opinion on Canvassing Foreign Investment, foreign investors are not allowed to conduct the business of transmitting audio-visual programs via information network. On September 28, 2009, the GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Porngraphic and Illegal Publications, jointly issued the Notice Regarding the Consistent Implementation of the "Regulation on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games (《關於貫徹和落實國務院<"三定"規定>和中央編辦有關解釋，進一步加强網絡游戲前置審批和進口網絡游戲審批管理的通知》) (the "**GAPP Notice**"). Article 4 of the GAPP Notice provides that foreign investors are not permitted to invest or engage in online game operations in mainland China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual arrangements or providing technical support.

Notwithstanding the foregoing, in March and April 2018, representatives of our Company and of the Joint Sponsors consulted the Beijing Municipal Bureau of Culture, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television and MIIT, respectively. JunHe has advised us that (i) all of them are competent government authorities for the Company's principal business activities; (ii) the relevant authorities have confirmed that, save for online reading and publication of internet games, the adoption of the Contractual Arrangements does not constitute a breach of the mainland China laws and regulations; and (iii) in relation to publication of internet games, the Beijing Municipal Bureau of Culture, being the competent authority regulating games already published, has confirmed that the adoption of the Contractual Arrangements does not constitute a breach of the mainland China laws and regulations and does not impact on the validity of the existing licences obtained by the Company

Based on the above analysis and advice from JunHe, the Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable mainland China laws and regulations. JunHe is of the view that Beijing Municipal Bureau of Culture, Beijing Municipal Bureau of Press, Publication, Radio, Film and Television and MIIT are competent and authorized to interpret the relevant laws, regulations and rules of mainland China for the industry in which our Company operates its business and make the abovementioned oral confirmations. See the section headed "Risk Factors—Risks Relating to Our Contractual Arrangements—If the mainland Chinese government finds that the agreements that establish the structure for operating our business do not comply with mainland Chinese laws and regulations, or if these regulations or their interpretations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations."

We are aware of a Supreme People's Court ruling (the "**Supreme People's Court Ruling**") made in October 2012 and two arbitral decisions from the Shanghai International Arbitration Center made in 2010 and 2011 which invalidated certain contractual agreements for the reason that the entry into of such agreements with the intention of circumventing foreign investment restrictions in mainland China contravene the prohibition against "concealing an illegitimate purpose under the guise of legitimate acts" set out in Article 52 of the China Contract Law and the General Principles of the mainland China Civil Law. It has been further reported that these court rulings and arbitral decisions may increase (i) the possibility of mainland China's courts and/or arbitration panels taking similar

actions against contractual structures commonly adopted by foreign investors to engage in restricted or prohibited businesses in mainland China and (ii) the incentive for the Registered Shareholders under such contractual structures to renege on their contractual obligations. Pursuant to Article 52 of the China Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. JunHe is of the view that the relevant terms of our Contractual Arrangements do not fall within the above five circumstances. In particular, JunHe is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) above under Article 52 of the China Contract Law because the Contractual Arrangements were not entered into for illegitimate purposes. The purpose of the Contractual Arrangements are (a) to enable our Onshore Holdcos to transfer its economic benefits to the WFOEs as service fees for engaging the WFOEs as their exclusive service provider and (b) to ensure that the Registered Shareholders do not take any actions that are contrary to the interests of the WFOEs. In accordance with Article 4 of the China Contract Law, which is a section of the Part One (General Principles) of the China Contract Law setting forth fundamental principles under the China Contract Law, the parties to the Contractual Arrangements have the right to enter into contracts in accordance with their own wishes and no person may illegally interfere with such right. In addition, the effect of the Contractual Arrangements, which is to allow our Company to list on the Stock Exchange while obtaining the economic benefits of our Consolidated Affiliated Entities, is not for an illegitimate purpose, as evidenced by the fact that a number of currently listed companies also adopt similar contractual arrangements. In conclusion, JunHe is of the view that the Contractual Arrangements do not fall within any of the five circumstances set forth in Article 52 of the China Contract Law.

DEVELOPMENT IN MAINLAND CHINA LEGISLATION ON FOREIGN INVESTMENT

Draft Foreign Investment Law

Background

The MOFCOM published Draft FIL in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in mainland China. The MOFCOM has solicited comments on this draft in early 2015 and substantial uncertainties exist with respect to its final form, enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in mainland China.

Negative list

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors on the "catalog of special administrative measures" (i.e. the "negative list"). The "catalog of special administrative measures" set out in the Draft Foreign Investment Law classifies the relevant prohibited and restricted industries into the Catalog of Prohibitions and the Catalog of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalog of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or

voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalog of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalog of Restrictions, provided that they fulfil certain conditions and apply for permission before making such investment.

However, the Draft Foreign Investment Law does not specify the businesses to be included in the Catalog of Prohibitions and the Catalog of Restrictions.

Principle of "actual control"

Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise or a foreign invested entity or "FIE." It specifically provides that entities established in mainland China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but cleared by the authority in charge of foreign investment as "controlled" by mainland China entities and/or citizens, would nonetheless be treated as a mainland China domestic entity for investment in the Catalog of Restrictions, subject to the examination of the relevant authority in charge of foreign investment. For these purposes, "control" is defined in the Draft Foreign Investment Law to cover any of the following summarized categories:

(i) directly or indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

(ii) directly or indirectly holding less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but:

  (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision-making bodies,

  (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision-making bodies, or

  (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

(iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control," the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the FIE. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights, and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defines "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or FIEs.

If an entity is determined to be a FIE and its investment amount exceeds certain threshold or its business operation falls within the "catalog of special administrative measures" to be issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

Impact of the Draft Foreign Investment Law on VIE

The "variable interest entity" structure, or VIE structure, has been adopted by many mainland China-based companies. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. As far as the new VIE structures operating in industry sectors that are in the Catalog of Restrictions are concerned, if the ultimate controlling person(s) of a domestic enterprise under the VIE structure is/are of mainland China nationality (either mainland China state-owned enterprises or agencies, or mainland China citizens), such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be considered as legitimate. Conversely, if ultimate controlling person(s) is/are of foreign nationalities, such domestic enterprise may be treated as a foreign investor or FIE, and therefore the operation of such domestic enterprise through VIE structures without obtaining necessary permission may be considered as illegal.

Neither the Draft Foreign Investment Law nor its accompanying explanatory notes (the "**Explanatory Notes**") provides a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective. However, the Explanatory Notes contemplate three possible approaches in dealing with FIEs with existing VIE structures and conducting business in an industry falling within the "catalog of special administrative measures":

(i) requiring them to make a filing (申報) to the competent authority that the actual control is vested with Chinese investors, after which the VIE structures may be retained;

(ii) requiring them to apply to the competent authority for certification that their actual control is vested with Chinese investors and, upon verification (認定) by the competent authority, the VIE structures may be retained; and

(iii) requiring them to apply to the competent authority for permission (准入許可) to continue to use the VIE structure. The competent authority together with the relevant departments will then make a decision after taking into account the actual control of the FIE and other factors.

To further clarify, under the first possible approach, "making a filing" is simply an information disclosure obligation, which means the enterprise does not have to receive any confirmation or permission from the competent authorities, whilst for the second and third approaches, the enterprise has to receive either the confirmation or the access permission from the competent authorities. For the latter two approaches, the second approach focuses on the nationality of the controller, whereas the third approach may take factors in addition to the nationality of the controller (which are not clearly defined in the Draft Foreign Investment Law or the Explanatory Notes) into consideration.

The three possible approaches above are set out in the Explanatory Notes to solicit public opinion on the treatment of existing contractual arrangements, have not been formally adopted and may be subject to revisions and amendments taking into account the results of the public consultation.

Where foreign investors and FIEs circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalog of Prohibitions, or make investments in sectors specified in the Catalog of Restrictions without permission or violate the information reporting obligations specified therein, penalty shall be imposed in accordance with Article 144 (Investments in Sectors Specified in the

Catalog of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

If foreign investors make investments in the sectors specified in the Catalog of Prohibitions or the Catalog of Restrictions without obtaining necessary permission, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government at the place where the investments are made shall order them to cease the implementation of the investments, dispose of any equity or other assets within a prescribed time limit, confiscate any illegal gains and impose a fine of not less than RMB100,000 but not more than RMB1 million or in a sum not more than 10% of illegal investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of failing to perform on schedule or evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities for foreign investment in the province, autonomous region and/or municipality directly under the central government at the place where the investments are made shall order them to make rectifications within a prescribed time limit. If they fail to make rectifications within the prescribed time limit or the circumstances are serious, such competent authorities shall impose a fine of not less than RMB50,000 but not more than RMB500,000 or in a sum not more than 5% of the investments.

If foreign investors or FIEs are in violation of the provisions of the Draft Foreign Investment Law, including by way of evading the performance of the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or FIEs and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

Status of promulgation of the Draft Foreign Investment Law

As of the Latest Practicable Date, there was no certainty whether, or timeline when, the Draft Foreign Investment Law will be promulgated and come into effect, and if so, whether it is to be promulgated in the current draft form after it undergoes through further enactment process. Furthermore, the MOFCOM has not issued any definite rules or regulations to govern existing contractual arrangements.

Potential impact of the Draft Foreign Investment Law on our Company

Whether our Company is controlled by mainland China entities and/or citizens

If the Draft FIL is promulgated in the current draft form, on the basis that (i) Lei Jun, our Controlling Shareholder, who is of Chinese nationality, will control an aggregate of **[REDACTED]**% of voting rights of our Company upon completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] no Shares are issued pursuant to the exercise of options granted under the Pre-**[REDACTED]** ESOP) and therefore complies with the first limb of the "control" requirement under the Draft FIL by virtue of Lei Jun (a Chinese national) indirectly holding 50% or more of the equity interest, assets, voting rights or similar equity interest of our Company; (ii) our Company through the WFOEs exercises effective

control over our Consolidated Affiliated Entities pursuant to the Contractual Arrangements and can exert decisive influence on the Onshore Holdcos and therefore complies with the third limb of the "control" requirement under the Draft FIL by virtue of Lei Jun having the power to exert decisive influence pursuant to the Contractual Arrangements, JunHe is of the view that we can apply for the recognition of the Contractual Arrangements as a domestic investment and it is likely that the Contractual Arrangements will be considered as legal.

Whether the Relevant Businesses are on the "catalog of special administrative measures" to be issued by the State Council

If the operation of our Relevant Businesses is not on the "catalog of special administrative measures" and we can legally operate such business under mainland China Laws, our WFOEs will exercise the call option under the Exclusive Option Agreements to acquire the equity interest of our Consolidated Affiliated Entities and unwind the Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of our Relevant Businesses is on the "catalog of special administrative measures," depending on the definition of "control" that may be adopted in the foreign investment law as finally enacted and the treatment of VIE structures existing before the new foreign investment law becoming effective, the Contractual Arrangements may be regarded as prohibited or restricted foreign investment and therefore may be considered as invalid and illegal. As a result, we will not be able to operate our Relevant Businesses through the Contractual Arrangements and would lose our rights to receive the economic benefits of our Consolidated Affiliated Entities. As such, the financial results of those entities would no longer be consolidated into our Group's financial results and we would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such de-recognition.

Sustainability of our business

If the new foreign investment law as finally promulgated and the "catalog of special administrative measures" as finally issued mandate further actions for us to retain the Contractual Arrangements, we will take all reasonable measures and actions to comply with the foreign investment law then in force and to minimize the adverse effect of such laws on our Company. However, there is no assurance that we can fully comply with such law. In the worst case scenario, we will not be able to operate the Relevant Businesses through the Contractual Arrangements and will lose our rights to receive the economic benefits from our Consolidated Affiliated Entities. In such case, the Stock Exchange may also consider our Company to be no longer suitable for **[REDACTED]** on the Stock Exchange and delist our Shares. See the section headed "Risk Factors—Risks Relating to Our Contractual Arrangements" in this document for details.

Nevertheless, considering that a number of existing entities are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, that the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. JunHe believes that the mainland China government is likely to take a relatively cautious attitude towards the supervision of foreign investments and the enactment of laws and regulations impacting them, and make decisions according to different situations in practice.

Our Directors undertake that our Company will, to the extent that our Company would be required to announce such information pursuant to Part XIVA of the SFO after the **[REDACTED]**, timely announce (i) any updates or material changes to the Draft Foreign Investment Law and (ii) in the event that the new foreign investment law has been promulgated, a clear description and analysis of the law, specific measures adopted by our Company to comply with the law (supported by advice from JunHe), as well as its impact on our business operation and financial position.

DECISION ON AMENDING FOUR INBOUND INVESTMENT LAWS

On September 3, 2016, the Standing Committee of the National People's Congress of the People's Republic of China (全國人大常務委員會) published the Decision of the Standing Committee of the National People's Congress on Revising Four Laws Including the "Law of the People's Republic of China on Wholly Foreign-Owned Enterprises" (《全國人大常務委員會關于修改<中華人民共和國外資企業法>等四部法律的決定》) which came into effect on October 1, 2016 and seeks to revise the current foreign investment legal regime.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS AND CONSOLIDATION OF FINANCIAL RESULTS OF OUR CONSOLIDATED AFFILIATED ENTITIES

According to IFRS 10—Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee Although our Company does not directly or indirectly own the Consolidated Affiliated Entities, the Contractual Arrangements as mentioned above enable our Company to exercise control over the Consolidated Affiliated Entities.

Under the Exclusive Business Cooperation Agreements, it was agreed that, in consideration of the services provided by WFOEs, each of our Onshore Holdcos will pay services fees to the WFOEs. The services fees, subject to the WFOEs' adjustment, are equal to the entirety of the total consolidated profit of our Onshore Holdcos (net of accumulated deficit of the Consolidated Affiliated Entities in the previous financial years (if any), costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld). WFOEs may adjust the services scopes and fees at its discretion in accordance with mainland China tax law and practice as well as the needs of the working capital of our Consolidated Affiliated Entities. WFOEs also have the right to periodically receive or inspect the accounts of our Consolidated Affiliated Entities. Accordingly, the WFOEs have the ability, at their sole discretion, to extract all of the economic benefit of our Onshore Holdcos through the Exclusive Business Cooperation Agreements.

In addition, under the Exclusive Business Cooperation Agreements and the Exclusive Option Agreements, the WFOEs have absolute contractual control over the distribution of dividends or any other amounts to the equity holders of our Consolidated Affiliated Entities as WFOEs' prior written consent is required before any distribution can be made. In the event that the Registered Shareholders receive any profit distribution or dividend from our Consolidated Affiliated Entities, the Registered Shareholders must immediately pay or transfer such amount (subject to the relevant tax payment being made under the relevant laws and regulations) to our Company.

As a result of these Contractual Arrangements, our Company has obtained control of our Consolidated Affiliated Entities through WFOE and, at our Company's sole discretion, can receive all of the economic interest returns generated by our Consolidated Affiliated Entities. Accordingly, our

Consolidated Affiliated Entities' results of operations, assets and liabilities, and cash flows are consolidated into our Company's financial statements.

In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries. The basis of consolidating the results of our Consolidated Affiliated Entities is disclosed in note 1 to the Accountant's Report in Appendix I to this document.

COMPLIANCE WITH THE CONTRACTUAL ARRANGEMENTS

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

(i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

(ii) our Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) our Company will disclose the overall performance and compliance with the Contractual Arrangements in our annual reports; and

(iv) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this **[REDACTED]**. *Our consolidated financial information has been prepared in accordance with IFRS.*

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this **[REDACTED]**, *including the sections headed "Risk Factors" and "Business."*

For the purpose of this section, unless the context otherwise requires, references to 2015, 2016 and 2017 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core. Under the leadership of Lei Jun, Xiaomi was founded in 2010 by a group of accomplished engineers and designers, who believed that high quality and well-designed technology products and services should be accessible to the world. To achieve this, we are unwavering in our pursuit of advances in innovation, quality, design, user experience and efficiency in an effort to provide the best technology products and services that are accessibly priced to our users.

Our unique and powerful "triathlon" business model comprises three synergistic pillars of growth—(i) innovative, high quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail allowing for our products to be priced accessibly and (iii) engaging internet services.

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention. For our core in-house products, we focus on designing and developing a range of cutting-edge hardware products including smartphones, laptops, smart TVs, AI speakers and smart routers. We curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies were focused on the development of smart hardware and lifestyle products as of March 31, 2018. This has enabled us to build the largest consumer IoT platform globally as of December 2017, excluding smartphones and laptops, according to iResearch. We had over 100 million connected devices, excluding smartphones and laptops, as of March 31, 2018. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

Our highly efficient omni-channel new retail distribution platform is a core component of our growth strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our users' experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with users. We were number one in terms of smartphone unit shipments online in both mainland China and India in the fourth quarter of 2017, according to IDC. In particular, Mi Store was the third-largest 3C and home appliances direct sales online retail platform in mainland China by GMV in 2017, according to iResearch. We were also the third-largest direct sales online retail platform by GMV in India in 2017, according to the same source. Since 2015, we have also significantly expanded our direct offline retail network, for example, through our self-operated Mi Home stores. Our direct offline retail capability allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. In 2017, our self-operated Mi Home stores generated the second highest average sales per square meter amongst retail store chains globally, according to iResearch. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

We provide internet services to give our users a complete mobile internet experience. In March 2018, we had approximately 190 million MAUs on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between hardware and internet services enable us to provide our users with better user experience. Furthermore, we have a proven track record of developing killer apps. In March 2018, we had 38 apps with more than 10 million MAUs and 18 apps with more than 50 million MAUs, including our Mi App Store, Mi Browser, Mi Music and Mi Video apps. Our users spent an average of approximately 4.5 hours per day on our smartphones in March 2018. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit.

During our Track Record Period, our total revenues increased from RMB66.8 billion in 2015 to RMB68.4 billion in 2016, and further increased to RMB114.6 billion in 2017. We had an operating profit of RMB1,372.7 million, RMB3,785.1 million and RMB12,215.5 million in 2015, 2016 and 2017, respectively. Excluding the impacts of (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation expenses, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions, we had adjusted non-IFRS loss of RMB303.9 million in 2015 and adjusted non-IFRS profit of RMB1,895.7 million and RMB5,361.9 million in 2016 and 2017, respectively. See "—Consolidated Income Statements" and "—Non-IFRS Measure: Adjusted (Loss)/Profit" for details. We had a loss of RMB7,627.0 million in 2015, a profit of RMB491.6 million in 2016 and a loss of RMB43,889.1 million in 2017.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with applicable International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 to the Accountant's Report included in Appendix I to this **[REDACTED]**.

All effective standards, amendments to standards and interpretations are consistently applied to our Group for the Track Record Period.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

General Factors

Our business and operating results are affected by general factors affecting the broader internet industry and the consumer electronics industry in mainland China and in the international markets where we focus. These factors include:

- overall economic growth and level of per capita disposable income;
- growth of mobile internet usage and penetration rate;
- growth and competition of the smartphone, IoT and lifestyle product markets;
- growth and competition of the internet service markets; and
- new and substantially more superior technology products and services.

Unfavorable changes in any of these general industry conditions could negatively affect demand for our products and services and materially adversely affect our results of operations.

Specific Factors

Our results of operations are also affected by specific factors affecting our results of operations, including the following major factors:

Popularity of Our Products

A substantial majority of our revenues is derived from sales of products, in particular smartphones, as well as the IoT and lifestyle products. Revenue growth in our smartphones segment and our IoT and lifestyle products segment in recent years was primarily driven by increased sales of existing products, including new models, and the category expansion of our product offerings. To maintain our growth momentum, we must continue to innovate and develop high-quality, well-designed and user-centric products to increase sales. Furthermore, revenues from our smartphones and our IoT and lifestyle products segments are affected by the selling price of our products, which is in turn affected by changes in the cost of components and raw materials, the anticipated demand for new models, the income levels of target users, changes in the mix of sales channels, the historical sales volume of previous models, and the prices of comparable products. In particular, the average selling price for smartphones typically declines during its life cycle. The effect of such declining average selling prices of our existing smartphone models has been offset by our continuous introduction of new and enhanced models and our expanded product category offerings.

Growth of Internet Services Revenues

Our internet services segment has achieved high gross profit margin during the Track Record Period, which plays a significant role in our overall profitability.

The growth of our internet services revenues ultimately depends on the breadth of our internet service offerings, the size of our user base and the level of user engagement and spending. We derive our internet services revenue primarily from advertising and internet value-added services, which mainly include online games. Advertisers are drawn to our platform because of the size of our user base, the level of our user engagement and the attractive demographics of our user base. Our value-added services depend on the overall size of our user base, in particular the number of paying users, as well as the level of user engagement. Our ability to maintain and expand our user base, as well as maintaining and enhancing user engagement and spending, depends on, among other things, our ability to continuously offer popular services, recommend personalized services and content through technological innovation and provide a superior user experience. We will continue to leverage our big data analytic capabilities and the resulting nuanced understanding of user interests to stay abreast of evolving user demand and preferences and introduce more popular and personalized products and services.

Expansion and Penetration in International Markets

As of March 31, 2018, we sell our products in 74 countries and regions across five continents. We have experienced significant growth in international operations during the Track Record Period, particularly in India. In 2015, 2016 and 2017, 6.1%, 13.4% and 28.0%, respectively, of our total revenues were derived from sales outside of mainland China. We believe our global opportunity is significant, and we will continue to enhance our sales and marketing efforts, expand our distribution channels, and invest in infrastructure and personnel to support our international expansion. We intend to leverage our strong execution abilities to localize our unique business model internationally. We believe our leading position in India's smartphone market lays a strong foundation for us to further expand our user base and internet services offerings to enhance user experience and further increase user monetization in India. Outside of mainland China and India, we will focus on expanding operations in additional markets, such as Southeast Asia, Europe, Russia and other regions. We may have to adapt our business model to the local markets due to various legal requirements and market conditions. Fluctuation in currency exchange rates between our main transaction currencies and foreign currencies used in international markets may impact our financial condition and operating results.

Strategic Investments

During the Track Record Period, we invested in a large number of companies both in mainland China and in the rest of the world. These investee companies can mainly help us efficiently expand our product and service offerings, provide proprietary technologies complementary to ours, or help us expand our international footprint. Our strategic investments can provide us with an additional stream of recurring income. We plan to continue to invest in businesses that are complementary to our business and growth strategies. Such investments may impact our results of operations and financial condition, depending on the amount involved and the performance of the companies in which we invest. In 2015, 2016 and 2017, our realized investment income was RMB533.5 million, RMB29.5

million and RMB283.4 million, respectively. In 2015, 2016 and 2017, our fair value gains on long-term investments measured at fair value through profit or loss were RMB2.8 billion, RMB2.7 billion and RMB6.4 billion, respectively.

Management of Supply-related Costs

For our smartphones segment and IoT and lifestyle products segment, raw materials, component and assembly costs of our in-house products, as well as the cost of procuring ecosystem products from our partners, have historically accounted for the largest portion of our cost of sales. Since the early stage of our development, we have adopted a contract-based outsourcing model for the assembly of our in-house products under which we strictly control the procurement, production and quality assurance processes. Our ability to effectively control our supply and other production-related costs has affected and will continue to affect our profitability. For products not developed in-house, we rely on our ecosystem partners to supply finished products. Cost of sales for the sale of such ecosystem products comprises primarily the production cost of such products and revenue-sharing with our partners. We proactively manage the cost of the ecosystem products supplied by our partners, and we believe maintaining a mutually beneficial relationship with our ecosystem partners is critical to our business and growth prospects. We provide ecosystem partners with significant business demand, allowing them to commercially launch their products and ramp up their business rapidly. Our ecosystem partners, on the other hand, leverage their research and development capabilities and help us quickly enter into new market segments, enabling us to expand our product portfolio.

To a lesser extent, our cost of sales had been impacted by fluctuations in foreign currency exchange rates as a result of our global operations. We are exposed to foreign exchange risks from trade receivables and trade payables when we receive foreign currencies from, or pay foreign currencies to overseas business partners.

For our internet services segment, revenue-sharing with game developers and other content providers accounted for a large portion of our cost of sales. Our ability to maintain a mutually beneficial relationship with our internet service partners in order to assure and improve the high quality and attractiveness of our internet services to users will significantly affect our results of operations.

Investment in People, Technology and Infrastructure

We are a technology company operating in intensely competitive markets. We have made, and will continue to make, significant investments in people, technology and infrastructure, to solidify our market leadership and to provide great user experience. As our organization expands, and as we invest more in R&D, expand our product and service offerings and broaden our retail channels, talent attraction and retention are critical for our business, operations and growth prospects. We will continue to invest in our people, particularly engineers, designers and product management personnel. As of March 31, 2018, over 5,500 of our employees held share-based awards.

In addition, we have dedicated and will continue to dedicate significant resources to research and development. Our patent portfolio, especially global patent portfolio, has grown rapidly in recent years as a result of our continued investments. We expect our future investments will include designing and developing new products and services with enhanced functionalities and features, as well as continued building of our patent reserve around the world. We will also continue to upgrade and expand our technology infrastructure to keep pace with the growth of our business. We have invested significant resources in the development of our cloud, big data and AI capabilities in recent years, and we expect to continue to do so in the near future.

Marketing and Brand Promotion

One of our growth strategies is to attract new users through enhancing our brand recognition. Instead of incurring a large amount of selling and marketing expenses for a company of our size, we rely on word-of-mouth marketing through continuous offering of popular products and services. Since 2016, we broadened our user base beyond the tech-savvy crowd through a variety of selected sales and marketing initiatives, as well as effective brand promotion campaigns which resulted in an increase in our selling and marketing expenses both in absolute amount and also as a percentage of our total revenues. Such efforts include expanding the large network of Mi Home stores, conducting online, TV and other offline advertising campaigns, as well as engaging popular celebrities for the promotion of our brands. As we continue to increase our domestic and global footprints, our marketing and brand promotion expenses may continue to increase in the near future.

Management of Working Capital

Our ability to effectively control our working capital has affected and will continue to affect our cash flow from operations. We actively manage our trade receivables for sales of goods and provision of services, and our trade payables for goods and services from our suppliers. We leverage our scale to negotiate attractive contractual terms with our customers and suppliers. In addition, we intend to maintain appropriate inventory levels to meet the market demand for our products.

Capital Expenditures on Land Use Rights and Office Buildings

To accommodate our growth in staff headcount, as well as our expanding domestic and global footprint in the most cost-effective manner, we have acquired and will continue to acquire land use rights and dedicate resources towards the construction of office buildings in favorable locations, such as Beijing, Wuhan, Chengdu, Nanjing and Shenzhen. As we expand our footprint into more countries and regions, our capital expenditures may influence our overall liquidity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. We set forth below those accounting policies that we believe may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report in Appendix I to this **[REDACTED]**.

Revenue Recognition

We principally derive revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. We recognize revenue when the specific criteria have been met for each of our activities, as described below.

Sales of Products

Revenue from the sale of products, which mainly includes smartphones, IoT and lifestyle products, directly to our customers is recognized when the control of the goods has been transferred upon the acceptance of products by our customers. Customers have full discretion over the products, and there is no unfulfilled obligation that could affect customers' acceptance of the products.

We collect cash from our customers before or upon deliveries of products mainly through banks or third-party online payment platforms. Cash collected from our customers before the acceptance of products is recognized as advance from customers. In mainland China, we generally allow customers to return our products purchased online for any reason within seven days from the date of purchase except for certain limited products that we allow return only if the packages of the products are unpacked, and we generally allow customers to exchange any defective products within 15 days from the date of purchase. We base our estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Internet Services

Internet services primarily comprise advertising services and internet value-added services.

Advertising Services

We generate advertising revenues primarily from display-based and performance-based advertisements.

Revenue from display-based advertisements to our users of smartphones and other devices are recognized on a straight-line basis over the contract period.

Revenue from performance-based advertisements is recognized based on actual performance measurement. We recognize revenue from the delivery of advertisements, typically based on (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third-party apps are downloaded by users.

Internet Value-Added Services

We recognize revenues from internet valued-added services, including online games, on a gross or net basis depending on whether we are acting as a principal or an agent in the transaction. For online games, we defer related revenues, over the estimated user relationship periods, when there is an explicit or implicit obligation for us to maintain the relevant applications and allow users to have access to them.

We determine whether our revenue should be reported gross or net based on a continuing assessment of various factors. When determining whether we are acting as the principal or agent in offering services to a customer, we need to first identify who control the specified goods or services

before the goods are sold or services are provided to the customer. We are a principal in a transaction if we obtain control of the goods or services before they are sold or provided to the customer. We are deemed to have control if we own: (i) a product or another asset from another party before the control is transferred to customers; (ii) a right to a service to be performed by another party, which provides us with the ability to direct such party to provide the service to customers on our behalf; or (iii) a product or service from another party before being combined with other products or services and provided to customers. If the control is unclear, we consider the following factors: (i) who is the primary obligor in the arrangement; (ii) who has latitude in establishing the selling price; and (iii) who has inventory risks. Therefore, we have adopted different revenue recognition methods based on our specific roles and responsibilities in different services offerings.

We do not expect to have any contracts under which the period between the transfer of the subject products or services to end customers and the payment by the customers exceeds one year. As a result, we do not adjust any of the transaction prices for the time value of money.

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial information of each of our entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of our Company is United States dollar. Our primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. We determined to present our historical financial information in RMB (unless otherwise stated).

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements.

Foreign exchange gains and losses are presented as "other (losses)/gains, net" in our consolidated income statements.

Translation differences on non-monetary financial assets and liabilities, such as instruments held at fair value through profit or loss, are recognized in profit or loss as part of the fair value changes.

Group Companies

The results and financial position of all of our entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates

prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income ("**OCI**").

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the exchange rate on the closing date of the transaction. Currency translation differences are recognized in other comprehensive income.

Disposal of Foreign Operation and Partial Disposal

On the disposal of a foreign operation (that is, a disposal of our entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in us losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in our ownership interest in associates or joint ventures that do not result in us losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Financial assets

Classification

We classify our financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19 to the Accountant's Report in Appendix I to this **[REDACTED]** for details of each type of financial asset.

We reclassify debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt Instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which we classify our debt instruments:

- *Amortized cost*. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- *Fair value through other comprehensive income ("**FVOCI**").* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other losses/gains, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other losses/gains, net and impairment expenses in other losses/gains, net.
- *Fair value through profit or loss*. Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other losses/gains, net in the period in which it arises.

Equity Instruments

We subsequently measure all equity investments at fair value. There is no investment with fair value gains or losses present in other comprehensive income during the Track Record Period. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the consolidated income statements. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

We have the following types of financial assets subject to IFRS 9's expected credit loss model:

- loans receivables from micro loans business;
- trade receivables for sales of goods or provision of services; and
- other receivables.

We assess the expected credit losses associated with its debt instruments carried at amortized cost on a forward-looking basis, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. See Note 3.1(b) to the Accountant's Report in Appendix I to this **[REDACTED]** for details on how we determine whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. If a significant increase in credit risk of a receivable has occurred since the initial recognition, then impairment is measured as lifetime expected credit losses.

Derecognition

Financial assets

We derecognize a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows from the financial asset have been transferred and we transfer substantially all the risks and rewards of ownership of such financial asset; or (iii) we retain the contractual rights to receive the cash flows of the financial asset, but assume a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of derecognition of transfer of cash flows ("pass through" requirement), and we transfer substantially all the risks and rewards of ownership of such financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized as profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gains or losses that have been recognized directly in equity.

If we neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, we continue to recognize the asset to the extent of its continuing involvement, and we recognize such asset as an associated liability.

Asset-backed securities

As part of our operations, we securitize financial assets related to internet finance business, generally through the sale of these assets to special purpose vehicles which issue securities to investors.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Intangible Assets

Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Licenses

Licenses include third-party payment license and other licenses. Third-party payment license represents the license issued by Chinese government authorities that enable us to operate third-party payment business. Other licenses primarily include licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. Licenses that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which future economic benefits of the intangible assets are expected to be consumed.

Trademarks, Patents and Domain Names

Separately acquired trademarks, patents and domain names are shown at historical cost. Trademarks, patents and domain names acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain names have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain names over their estimated useful lives of one to 16 years.

Other Intangible Assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded in amortization within operating expenses in the consolidated income statements.

Research and Development Expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

Convertible Redeemable Preferred Shares ("Preferred Shares")

Preferred shares issued by us are redeemable at the option of the holders at any time commencing on the redemption start date of December 23, 2019. This instrument can be converted into our Class B ordinary shares of par value US$0.000025 each at the option of a holder after July 3, 2015, or automatically converted into our Class B ordinary shares of par value US$0.000025 each upon occurrence of (i) the closing of a **[REDACTED]**) or (ii) with written consent of holders of more than fifty percent of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds of the issued and outstanding Preferred Shares (other than the Series A Preferred Shares), as detailed in Note 35 to the Accountant's Report in Appendix I to this **[REDACTED]**.

We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statements.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated income statements.

The Preferred Shares are classified as non-current liabilities because the Preferred Shares holders cannot demand us to redeem the Preferred Shares for at least 12 months after the end of the reporting period.

Share-based Compensation

We operate share-based compensation plans, under which we receive services from employees as consideration for our equity instruments. The fair value of the employee services received in exchange for the grant of equity instruments (options and restricted shares units ("**RSUs**")) is recognized as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the equity instruments (options and RSUs) granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options and RSUs that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, we revise our estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in our consolidated income statements, with a corresponding adjustment to equity.

In some circumstances employees may provide services in advance of the grant date, and therefore, the fair value on the grant date is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

Inventories

Inventories, consisting principally of raw materials, work in progress, finished goods and spare parts, are stated at the lower of cost, using the weighted average method, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

CONSOLIDATED INCOME STATEMENTS

The following table sets forth a summary of our consolidated income statements with line items in absolute amounts and as percentages of our revenues for the periods indicated.

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Revenue	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0
Cost of sales	(64,111,325)	(96.0)	(61,184,806)	(89.4)	(99,470,537)	(86.8)
Gross profit	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2
Selling and marketing expenses	(1,912,765)	(2.9)	(3,022,313)	(4.4)	(5,231,540)	(4.6)
Administrative expenses	(766,252)	(1.1)	(926,833)	(1.4)	(1,216,110)	(1.1)
Research and development expenses	(1,511,815)	(2.3)	(2,104,226)	(3.1)	(3,151,401)	(2.7)
Fair value changes on investments measured at fair value through profit or loss	2,813,353	4.2	2,727,283	4.0	6,371,098	5.6
Share of losses of investments accounted for using the equity method	(92,781)	(0.1)	(150,445)	(0.2)	(231,496)	(0.2)
Other income	522,436	0.8	540,493	0.8	448,671	0.4
Other (losses)/gains, net	(379,439)	(0.6)	(528,250)	(0.8)	72,040	0.1
Operating profit	1,372,670	2.0	3,785,064	5.5	12,215,467	10.7
Finance (expense)/income, net	(85,867)	(0.1)	(86,246)	(0.1)	26,784	0.0
Fair value changes of convertible redeemable preferred shares	(8,759,314)	(13.1)	(2,523,309)	(3.7)	(54,071,603)	(47.2)
(Loss)/profit before income tax	(7,472,511)	(11.2)	1,175,509	1.7	(41,829,352)	(36.5)
Income tax expenses	(154,519)	(0.2)	(683,903)	(1.0)	(2,059,763)	(1.8)
(Loss)/profit for the year	(7,627,030)	(11.4)	491,606	0.7	(43,889,115)	(38.3)
Non-IFRS Measure:						
Adjusted (loss)/profit (unaudited)(1)	(303,887)	(0.5)	1,895,657	2.8	5,361,876	4.7

Note:

(1) We define 'adjusted (loss)/profit' as loss or profit for the year by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions. Adjusted (loss)/profit is not a measure required by, or presented in accordance with IFRS. The use of adjusted (loss)/profit has limitation as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See "—Non-IFRS Measure: Adjusted (Loss)/Profit" for details.

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Our Company

Our business activities are regularly reviewed and evaluated by the chief operating decision-maker, who is responsible for allocating resources and assessing performance of our operating segment. Our chief operating decision-maker has been identified as our Chief Executive Officer, who makes strategic decisions and considers that our operations are operated and managed as four segments.

Revenue

During the Track Record Period, we generated revenues from four business segments: smartphones, IoT and lifestyle products, internet services and others. Our revenues from smartphones

segment are derived from the sale of smartphones. Our revenues from the IoT and lifestyle products segment comprise revenues from sales of (i) our other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) our ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Our revenues from internet services segment are derived from advertising services and internet value-added services. Revenues from other segment are primarily derived from repair services for our hardware products.

The following table sets forth segment revenue both as an absolute amount and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Smartphones	53,715,410	80.4	48,764,139	71.3	80,563,594	70.3
IoT and lifestyle products	8,690,563	13.0	12,415,438	18.1	23,447,823	20.5
Internet services	3,239,454	4.9	6,537,769	9.6	9,896,389	8.6
Others	1,165,831	1.7	716,815	1.0	716,936	0.6
Total	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0

Geographically, we generated 93.9%, 86.6% and 72.0% of our revenues in mainland China in 2015, 2016 and 2017, respectively. The following table sets forth revenues from mainland China and the rest of the world both as an absolute amount and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Mainland China	62,755,575	93.9	59,279,381	86.6	82,543,462	72.0
Rest of the world	4,055,683	6.1	9,154,780	13.4	32,081,280	28.0
Total	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0

Smartphones

We sell our smartphones through our new retail channels directly to end users and through our online and offline distribution partners. We strive to offer our smartphones at price points that are accessible to the widest user base. The following table sets forth the average selling prices, the number of smartphones sold, and the total revenue from smartphone sales for the periods indicated.

	For the year ended December 31,		
	2015	2016	2017
Average selling price (RMB)[(1)]	807.2	879.9	881.3
Number of smartphones sold (thousands)	66,546	55,419	91,410
Total revenues from smartphones segment (RMB thousands)	53,715,410	48,764,139	80,563,594

Note:

(1) Averaging selling price equals our total revenue from smartphones segment divided by the total number of smartphones sold.

The average selling price of our smartphones fluctuated over the years due to various factors such as sales volume of differently priced models and the mix of sales channels. Revenues from the smartphone segment increased by 65.2% from 2016 to 2017, compared to a decrease of 9.2% from 2015 to 2016.

IoT and Lifestyle Products

We have significantly expanded our product categories during the Track Record Period and systematically introduced a series of popular products. In addition to our in-house products, we collaborate with our ecosystem partners to design and develop a wide range of smart home, health and fitness, travel, audio, kids and other IoT products, as well as certain lifestyle products, the sales of which has driven the growth of our user base.

Internet Services

The growth of our internet services revenues ultimately depends on the size of our user base and the level of user engagement and spending. MAUs of our MIUI operating system increased by 20.1% from 112.2 million in December 2015 to 134.8 million in December 2016, and further by 26.7% to 170.8 million in December 2017. Average internet services revenues per user, calculated as the ratio of internet services revenues for the year divided by the MAUs in December for such year, increased from RMB28.9 in 2015 to RMB48.5 in 2016, and further to RMB57.9 in 2017. We derive our internet services revenues from advertising and internet value-added services, which mainly include online games. The following table sets forth internet services revenues from advertising and internet value-added services, both as an absolute amount and as a percentage of total internet services revenues for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Advertising services	1,820,637	56.2	3,838,420	58.7	5,614,389	56.7
Internet value-added services	1,418,817	43.8	2,699,349	41.3	4,282,000	43.3
Total	3,239,454	100.0	6,537,769	100.0	9,896,389	100.0

We generate advertising revenue primarily by offering advertisements through our online distribution channels, which include our mobile apps and smart TVs. We offer diverse types of advertising formats, such as display and performance-based advertising, to our advertising customers to suit their particular business needs and marketing goals. Revenue from display-based advertisements to the users of online, mobile platforms and other devices operated by us are recognized on a straight-line basis over the contract period. Revenue from performance-based advertisements is recognized based on actual performance measurement. We recognize the revenue from the delivery of such advertisements typically based on a per-click basis when the users click on the content, on a per-impression basis when the advertising content is displayed to users, or on a per-download basis, when the third-party apps is downloaded by users.

For online games operations, we primarily generate revenue from sales of virtual currency for purchase of virtual items that can be used in the games we operate, which is subject to the revenue-sharing arrangements with third-party game developers. Revenues from online games operations amounted to RMB1,334.5 million, RMB2,135.0 million and RMB2,546.1 million in 2015, 2016 and 2017, respectively.

Our other sources of internet value-added service revenues are mainly from paid subscription by users of premium entertainment content (such as online videos, literature and music), as well as live streaming and internet financial services.

Others

Revenues from other segment are primarily derived from repair services for our hardware products.

Cost of Sales

Our cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for our in-house products, (ii) assembly cost charged by our outsourcing partners for our in-house products, (iii) royalty fees for certain technologies embedded in our in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to our partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. Our cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs.

The following table sets forth our cost of sales by segment and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Smartphones	53,886,309	80.7	47,082,377	68.8	73,462,255	64.1
IoT and lifestyle products	8,655,686	13.0	11,402,565	16.7	21,496,958	18.8
Internet services	1,160,777	1.7	2,329,294	3.4	3,935,638	3.4
Others	408,553	0.6	370,570	0.5	575,686	0.5
Total	64,111,325	96.0	61,184,806	89.4	99,470,537	86.8

Gross Profit

The following table sets forth our gross profit in absolute amounts and as a percentage of revenues, or gross margins, for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Gross profit	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2

The following table sets forth our gross (loss)/profit and gross margin by segment for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Smartphones	(170,899)	(0.3)	1,681,762	3.4	7,101,339	8.8
IoT and lifestyle products	34,877	0.4	1,012,873	8.2	1,950,865	8.3
Internet services	2,078,677	64.2	4,208,475	64.4	5,960,751	60.2
Others	757,278	65.0	346,245	48.3	141,250	19.7
Total	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) offline promotional and advertising expenses, (ii) online promotional and advertising expenses, and (iii) salaries and benefits (including employee benefit expenses and share-based compensation) relating to selling and marketing personnel. Offline promotional and advertising activities primarily include the placement of physical advertisements in mass transit stations, on billboards and in residential and commercial buildings. Online promotional and advertising activities primarily include advertising in films and TV series, on internet video platforms, in popular mobile apps and through search engines, as well as celebrity endorsements.

Selling and marketing expenses increased significantly during the Track Record Period primarily due to (i) an expanded sales and marketing team dedicated to promoting our brand, products and services along with the rapid growth of Mi Home network, and (ii) the increased promotional activities in mainland China and the rest of the world.

Administrative Expenses

Our administrative expenses primarily consist of (i) salaries and benefits (including employee benefit expenses and share-based compensation) relating to administrative personnel, (ii) certain third-party consulting and professional service fees, (iii) depreciation and amortization expenses allocated to administrative expenses, and (iv) rent, utility and other office expenses allocated to administrative expenses.

During the Track Record Period, administrative expenses increased steadily primarily due to increased headcount in line with our expanding business operations and, to a lesser extent, increased professional fees.

Research and Development Expenses

Our research and development expenses primarily comprise (i) salaries and benefits (including employee benefit expenses and share-based compensation) relating to research and development personnel, (ii) sample testing and certification expenses, (iii) licensing fees paid to third parties for certain intellectual property used, (iv) depreciation and amortization expenses allocated to research and development expenses and (v) rent, utility and other office expenses allocated to research and development expenses.

The increase in research and development expenses during the Track Record Period was primarily due to an increase in the number of research and development personnel.

Share-based Compensation

In May 2011, our Directors approved the Xiaomi Corporation 2011 Employee Stock Option Plan, which was further superseded in its entirety as the Pre-**[REDACTED]** ESOP to attract, motivate, retain and reward certain employees and directors. We are authorized to grant share options and RSUs to our employees and directors under the Pre-**[REDACTED]** ESOP. Share-based compensation expenses constitute a portion of salaries and benefits, which will be reflected in our selling and marketing expenses, administrative expenses and research and development expenses.

In terms of the share options we have awarded to our employees, we used the discounted cash flow method to determine the underlying equity fair value of our Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by us with best estimate. Based on fair value of the underlying ordinary shares, we have used binomial option-pricing model to determine the fair value of the share option as at the grant date. We established a development fund in August 2014 and invited certain of our employees to participate in the fund (the "**Employee Fund**"). See Note 29 to the Accountant's Report included in Appendix I to this **[REDACTED]** for details regarding the Employee Fund.

The total expenses recognized in the expenses lines of our consolidated income statements for the Pre-**[REDACTED]** ESOP granted to our employees were RMB621.6 million, RMB813.9 million and RMB807.9 million for the years ended December 31, 2015, 2016 and 2017, respectively. We will continue to incur expenses in connection with any further grants under the Post-**[REDACTED]** ESOP and the Employee Fund, and will incur additional expenses to the extent that additional share options and RSUs are granted in the future.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

We recognize the fair value changes on the following types of investments in profits or losses: (i) short-term investments measured at fair value through profit or loss, which are RMB-denominated wealth management products whose returns are not guaranteed, (ii) equity investments other than those accounted for using the equity method, and (iii) investments in convertible redeemable preferred shares or ordinary shares with preferential rights.

The following table sets forth a breakdown of our fair value changes on investments measured at fair value through profit or loss by asset class for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Fair value changes on short-term investments measured at fair value through profit or loss	11,943	4,537	21,076
Fair value changes on long-term investments measured at fair value through profit or loss[(1)]	2,801,410	2,722,746	6,350,022
Total	2,813,353	2,727,283	6,371,098

Notes:

(1) Represents (i) fair value changes on equity investments and (ii) fair value changes on preferred shares investments.

Share of Losses of Investments Accounted for Using the Equity Method

We recorded share of losses from investments primarily because we had accounted for several investee companies that had losses using the equity method during the Track Record Period.

Other Income

Our other income primarily includes (i) government grants, (ii) value-added tax and other tax refunds, (iii) dividend income and (iv) income from wealth management products.

The following table sets forth a breakdown of our other income by amount and as a percentage of our total revenues for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Government grants	87,698	0.1	217,046	0.3	121,151	0.1
Value-added tax and other tax refunds	38,017	0.1	121,939	0.2	3,738	0.0
Dividend income	3,652	0.0	96,328	0.1	106,291	0.1
Income from wealth management products[1]	393,069	0.6	105,180	0.2	217,491	0.2
Total	522,436	0.8	540,493	0.8	448,671	0.4

Note:

(1) Represents (i) investment income from short-term investments measured at fair value through profit or loss and (ii) interest income from short-term investments measured at amortized cost.

Other (Losses)/Gains, Net

Our other (losses)/gains, net primarily include (i) gains on disposal of investments, (ii) remeasurement of loss of significant influence in an associate, (iii) foreign exchanges losses, net, and (iv) impairment on investments accounted for using the equity method. Gains on disposal of investments primarily arise from disposal of our equity investments in our investee companies. Foreign exchanges losses, net are incurred primarily due to fluctuations in exchange rates between RMB and U.S. dollars.

The following table sets forth a breakdown of our other (losses)/gains, net, by amount and as a percentage of our total revenues for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Gains on disposal of investments[1]	533,516	0.8	29,490	0.0	283,437	0.3
Remeasurement and impairment on investments[2]	(421,717)	(0.6)	(511,532)	(0.7)	—	—
Foreign exchanges losses, net	(506,528)	(0.8)	(54,291)	(0.1)	(144,265)	(0.1)
Others	15,290	0.0	8,083	0.0	(67,132)	(0.1)
Total	(379,439)	(0.6)	(528,250)	(0.8)	72,040	0.1

Note:

(1) Represents (i) net gains on disposal of long-term investments measured at fair value through profit or loss and (ii) net gain on disposal of investments accounted for using the equity method.

(2) Represents (i) remeasurement of loss of significant influence in an associate and (ii) impairment on investments accounted for using the equity method.

Operating Profit

The following table sets forth our operating profit in absolute amounts and as a percentage of our revenues, or operating margin, for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Operating profit	1,372,670	2.0	3,785,064	5.5	12,215,467	10.7

Finance (Expense)/Income, Net

Finance (expense)/income, net represents finance income net against finance costs. Finance income consists of interest income from bank deposits, including bank balance and term deposits, whereas finance cost consists of interest expenses.

Fair Value Changes of Convertible Redeemable Preferred Shares

Fair value changes of convertible redeemable preferred shares represent changes in fair value of the Preferred Shares issued by us. For the years ended December 31, 2015, 2016 and 2017, our fair value changes of convertible redeemable preferred shares were RMB8.8 billion, RMB2.5 billion and RMB54.1 billion, respectively. Prior to the **[REDACTED]**, the Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 35 to the Accountant's Report included in Appendix I to this **[REDACTED]** for details of the key assumptions in the valuations. Upon the completion of the **[REDACTED]**, all of our Preferred Shares will be automatically converted to our Class B ordinary shares of US$0.000025 each. The fair value of each of Preferred Share will then be equivalent to the fair value of each of our ordinary shares on the conversion date, which is the **[REDACTED]** in the **[REDACTED]**.

We designate Preferred Shares as financial liabilities at fair value. Any changes in the fair value of the Preferred Shares are recorded as "fair value changes of convertible redeemable preferred shares" in the consolidated income statements.

Taxation

Income tax expense was RMB154.5 million, RMB683.9 million and RMB2.1 billion for 2015, 2016 and 2017, respectively. As of the Latest Practicable Date, we did not have any dispute with any tax authority. We are subject to various rates of income tax under different jurisdictions. The following summarizes the major factors affecting our applicable tax rates in the Cayman Islands, the BVI, Hong Kong, mainland China and India.

Cayman Islands and the British Virgin Islands

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company. Our BVI companies limited by shares incorporated or registered with limited liability under the BVI Business Companies Act (as amended) are currently exempt from income and corporate tax. In addition, BVI does not levy capital gains tax on companies incorporated or registered under the BVI Business Companies Act (as amended).

Hong Kong

Hong Kong profits tax rate was 16.5% on the assessable profits for the years ended December 31, 2015, 2016 and 2017, based on the existing legislation, interpretation and practices in respect thereof.

Mainland China

Our income tax provision in respect of our operations in mainland China was calculated at tax rate of 25% on the assessable profits during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Certain of our subsidiaries were entitled to preferential tax rates ranging from 9% to 15%. Beijing Xiaomi Mobile Software Co., Ltd. was accredited as a software enterprise under the relevant Chinese laws and regulations in 2012. Accordingly, Beijing Xiaomi Mobile Software Co., Ltd. was exempt from income tax for two years, between 2012 and 2013, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years, between 2014 and 2016. Beijing Xiaomi Mobile Software Co., Ltd. also qualifies as a "high and new technology enterprise," and it enjoys a preferential income tax rate of 15% commencing from 2017. Tibet Zimi Communications Co., Ltd., established in the Tibet Autonomous Region of the mainland China, is entitled to a preferential rate of 9% for 2015, 2016 and 2017.

According to the relevant laws and regulations promulgated by the State Tax Bureau of mainland China that were effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred a tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). We have made our best estimate for the Super Deduction to be claimed for our entities in ascertaining their assessable profits during the Track Record Period.

India

The income tax provision for our entity in India was calculated at effective tax rates of 30% to 35% on the assessable profits during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Profit/(Loss)

The following table sets forth our profit/(loss) in absolute amounts and as a percentage of our revenues, or net margin, for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)					
Profit/(loss)	(7,627,030)	(11.4)	491,606	0.7	(43,889,115)	(38.3)

Our Board has resolved that for the year ending December 31, 2018 and each year thereafter, we will limit the net margin after tax for our entire hardware business (including smartphone, IoT and lifestyle products) (the "**Margin**"), to a maximum of 5%. The Margin is calculated based on the following formula (the "**Formula**"):

- the Margin = the net profits after tax relating to the sales of our entire hardware business based on our management accounts for a financial year (the "**Net Profit**") / the revenue of the entire hardware business for the same financial year; and
- the Net Profit = (revenue from the entire hardware business – cost of goods sold relating to the entire hardware business – the selling and marketing expenses, research and development expenses and administrative expenses relating to the sales of the entire hardware business) X (1 – the Group's effective tax rate for the preceding financial year).

The expenses cited in the Formula exclude any expenses related to share based compensation. If the actual Margin achieved for any financial year exceeds 5% calculated based on the Formula, we will distribute the amount of net profit earned exceeding 5% to our customers in general by way of reasonable means as our Board may determine from time to time.

NON-IFRS MEASURE: ADJUSTED (LOSS)/PROFIT

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use adjusted (loss)/profit as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of investment transactions. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of our non-IFRS financial measure for the years ended December 31, 2017, 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

	Year Ended December 31, 2017					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the year	(43,889,115)	54,071,603	909,155	(5,732,151)	2,384	5,361,876
Net margin	(38.3)%					4.7%

	Year Ended December 31, 2016					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the year	491,606	2,523,309	871,230	(1,992,999)	2,511	1,895,657
Net margin	0.7%					2.8%

	Year Ended December 31, 2015					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the year	(7,627,030)	8,759,314	690,742	(2,130,169)	3,256	(303,887)
Net margin	(11.4)%					(0.5)%

Notes:

(1) Includes fair value gains on equity investments and preferred shares investments, impairment provision for investments and remeasurement of loss of significant influence in an associate, net of tax.

(2) Represents amortization of intangible assets resulting from acquisitions, net of tax.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues

Our total revenues increased by 67.5% from RMB68.4 billion in 2016 to RMB114.6 billion in 2017. Our revenues in mainland China increased by 39.2% from RMB59.3 billion in 2016 to RMB82.5 billion in 2017, and our overseas revenues significantly increased by 250.4% from RMB9.1 billion in 2016 to RMB32.1 billion in 2017.

Smartphones

Our revenues from the smartphones segment increased by 65.2% from RMB48.8 billion in 2016 to RMB80.6 billion in 2017, primarily due to a significant increase in the number of smartphones sold. We sold approximately 91.4 million units of smartphones in 2017, compared to approximately 55.4 million units sold in 2016. The average selling price of our smartphones was RMB881.3 per unit in 2017, compared with RMB879.9 per unit in 2016.

IoT and lifestyle products

Our revenues from the IoT and lifestyle products segment increased by 88.9% from RMB12.4 billion in 2016 to RMB23.5 billion in 2017, primarily due to a significant expansion of our IoT and lifestyle product offerings, and a continued increase in the popularity of existing products among consumers, such as smart TVs and laptops. Revenues from the sales of our key IoT products, including smart TVs and laptops, increased by 146.5% from RMB3,372.2 million in 2016 to RMB8,312.4 million in 2017.

Internet services

Our revenues from internet services segment increased by 51.4% from RMB6.5 billion in 2016 to RMB9.9 billion in 2017, primarily due to an increase in revenues from advertising and game operations. MIUI MAUs increased by 26.7% from 134.8 million in December 2016 to 170.8 million in December 2017. Average internet services revenues per user, calculated as the ratio of internet services revenues for a year divided by the MAUs in December for such year, increased from RMB48.5 in 2016 to RMB57.9 in 2017.

Others

Our revenues from others segment remained stable from RMB716.8 million in 2016 to RMB716.9 million in 2017.

Cost of sales

Our cost of sales increased by 62.6% from RMB61.2 billion in 2016 to RMB99.5 billion in 2017.

Smartphones

Cost of sales related to the smartphones segment increased by 56.0% from RMB47.1 billion in 2016 to RMB73.5 billion in 2017, primarily due to increased cost associated with the increased sales of

our smartphones. The cost of inventories recognized as expense and included in cost of sales of smartphones segment increased by 26.7% from RMB40.9 billion in 2016 to RMB51.8 billion in 2017. Royalty fees paid to third-party intellectual property holders increased by 78.9% from RMB1.9 billion in 2016 to RMB3.4 billion in 2017. Warranty expenses increased by 77.8% from RMB0.9 billion in 2016 to RMB1.6 billion in 2017, and provision for impairment of inventories increased by 178.6% from RMB203.0 million in 2016 to RMB565.6 million in 2017.

IoT and lifestyle products

Cost of sales in the IoT and lifestyle products segment increased by 88.5% from RMB11.4 billion in 2016 to RMB21.5 billion in 2017, which was generally consistent with the increase in IoT and lifestyle product revenues.

Internet services

Cost of sales related to the internet services segment increased by 69.0% from RMB2.3 billion in 2016 to RMB3.9 billion in 2017, primarily due to increased amount of revenues shared with game developers as well as our increased infrastructure spending resulting from higher user traffic and engagement. Revenues shared with game developers increased by 20.0% from RMB1.0 billion in 2016 to RMB1.2 billion in 2017. Cloud service, bandwidth and server custody fees increased by 54.6% from RMB601.5 million in 2016 to RMB929.9 million in 2017.

Others

Cost of sales in our others segment increased by 55.4% from RMB370.6 million in 2016 to RMB575.7 million in 2017, primarily due to the increased hardware repair costs.

Gross profit and gross margin

As a result of the foregoing, our gross profit significantly increased by 109.0% from RMB7.2 billion in 2016 to RMB15.2 billion in 2017. The gross profit margin from our smartphones segment increased significantly from 3.4% in 2016 to 8.8% in 2017 primarily due to changes in product mix. The gross profit margin from our IoT and lifestyle products segment remained relatively stable, at 8.2% in 2016 and 8.3% in 2017. The gross profit margin from our internet services segment decreased from 64.4% in 2016 to 60.2% in 2017, as we significantly improved the quality of our internet services, which resulted in faster growth in our cloud service, bandwidth and server custody fees over our segment revenues. Furthermore, internet financial services, which has a relatively lower gross margin compared to other internet value-added services, contributed a larger portion to our internet services segment revenues. As a result of the foregoing, our gross margin increased from 10.6% in 2016 to 13.2% in 2017.

Selling and marketing expenses

Our selling and marketing expenses increased by 73.1% from RMB3.0 billion in 2016 to RMB5.2 billion in 2017, primarily due to increases in promotional and advertising expenses, as well as salaries and benefits for selling and marketing personnel. Promotional and advertising expenses increased significantly by 99.5% from RMB963.4 million in 2016 to RMB1.9 billion in 2017, primarily due to our enhanced promotion and advertising activities for our newly launched products and our brand in general. Salaries and benefits (including employee benefit expenses and share-based

compensation) relating to selling and marketing personnel increased primarily due to increased headcount.

Administrative expenses

Our administrative expenses increased by 31.2% from RMB0.9 billion in 2016 to RMB1.2 billion in 2017, primarily due to the increase in salaries and benefits (including employee benefit expenses and share-based compensation) as a result of the increased headcount of administrative personnel.

Research and development expenses

Our research and development expenses increased by 49.8% from RMB2.1 billion in 2016 to RMB3.2 billion in 2017, primarily due to an increase in the total compensation relating to research and development personnel as a result of the increased headcount as well as an increase in sample testing and certification expenses. Salaries and benefits (including employee benefit expenses and share-based compensation) relating to research and development personnel increased primarily due to increased headcount. Our research and development personnel headcount increased by 52.5% from 3,441 as of December 31, 2016 to 5,247 as of December 31, 2017.

Fair value changes on investments measured at fair value through profit or loss

Our fair value changes on investments measured at fair value through profit or loss significantly increased by 133.6% from RMB2.7 billion in 2016 to RMB6.4 billion in 2017, primarily due to significant fair value gains in several of our investee companies.

Share of losses of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 53.9% from RMB150.4 million in 2016 to RMB231.5 million in 2017 due to increased losses incurred by certain of these investments.

Other income

Our other income decreased by 17.0% from RMB540.5 million in 2016 to RMB448.7 million in 2017, primarily due to decreases in government grants and value added tax and other tax refunds, partially offset by an increase in interest income from short-term investments.

Other (losses)/gains, net

Our other (losses)/gains, net changed from a net loss of RMB528.3 million in 2016 to a net gain of RMB72.0 million in 2017, primarily due to increased gains on disposal of long-term investments, and no impairment on investments accounted for using the equity method occurred, partially offset by an increase in foreign exchange losses resulting from the devaluation of the U.S. dollars in our current deposit accounts and our trade and other receivables.

Operating profit

As a result of the foregoing, we had operating profits of RMB3.8 billion and RMB12.2 billion in 2016 and 2017, respectively.

Finance (expense)/income, net

We had a net finance expense of RMB86.2 million in 2016 and a net finance income of RMB26.8 million in 2017, primarily due to higher interests from more bank deposits, partially offset by higher interest expenses. Our interest expenses increased primarily due to an increase in bank borrowings and an increase in average interest rates on these bank borrowings partially offset by a higher amount of interest expenses being capitalized.

Fair value changes of convertible redeemable preferred shares

Changes in the fair value of convertible redeemable preferred shares were recorded as "fair value changes of convertible redeemable preferred shares." Fair value changes of convertible redeemable preferred shares increased from a loss of RMB2.5 billion in 2016 to a loss of RMB54.1 billion in 2017, resulting from changes in the valuation of our Company. See Note 35 to the Accountant's Report included in Appendix I to this **[REDACTED]** for details regarding the change in fair value of convertible redeemable preferred shares.

(Loss)/profit before income tax

As a result of the foregoing, we had a loss before income tax of RMB41.8 billion in 2017, compared with a profit before income tax of RMB1.2 billion in 2016.

Income tax expenses

Our income tax expenses increased from RMB683.9 million in 2016 to RMB2.1 billion in 2017, primarily due to our significantly higher operating profits in 2017.

(Loss)/profit for the year

As a result of the foregoing, we had a loss of RMB43.9 billion in 2017, compared with a profit of RMB491.6 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues

Our total revenues increased by 2.4% from RMB66.8 billion in 2015 to RMB68.4 billion in 2016. Globally, our revenues in mainland China decreased by 5.5% from RMB62.8 billion in 2015 to RMB59.3 billion in 2016, and our overseas revenues increased by 125.7% from RMB4.0 billion in 2015 to RMB9.1 billion in 2016.

Smartphones

Our revenues from the smartphones segment decreased by 9.2% from RMB53.7 billion in 2015 to RMB48.8 billion in 2016, primarily due to a decrease in the number of smartphones sold, partially offset by the increase in the average selling price of our smartphones. We sold approximately 55.4 million units of smartphones in 2016, compared to approximately 66.5 million units sold in 2015. The average selling price of our smartphones was RMB879.9 per unit in 2016, compared with RMB807.2 per unit in 2015.

IoT and lifestyle products

Our revenues from the IoT and lifestyle products segment increased by 42.9% from RMB8.7 billion in 2015 to RMB12.4 billion in 2016, primarily due to the significant expansion in our IoT and lifestyle products portfolio and an increase in the popularity of such products among consumers. Revenues from sales of our key IoT products, including smart TVs and laptops, increased by 29.1% from RMB2,612.0 million in 2015 to RMB3,372.2 million in 2016.

Internet services

Our revenues from internet services segment increased significantly by 101.8% from RMB3.2 billion in 2015 to RMB6.5 billion in 2016, primarily due to the growth of our advertising and internet value-added services revenues driven by an increase in our user base and deepening of user engagement. MAUs of our MIUI operating system increased by 20.1% from 112.2 million in December 2015 to 134.8 million in December 2016. Average internet services revenues per user, calculated as the ratio of internet services revenues for a year divided by the MAUs in December for such year, increased from RMB28.9 in 2015 to RMB48.5 in 2016.

Others

Our revenues from others segment decreased by 38.5% from RMB1.2 billion in 2015 to RMB0.7 billion in 2016, primarily due to the decrease of revenue-sharing from cellular network carriers in mainland China for the cellular service plans purchased by users of our smartphones.

Cost of sales

Our cost of sales decreased by 4.6% from RMB64.1 billion in 2015 to RMB61.2 billion in 2016.

Smartphones

Cost of sales in the smartphones segment decreased by 12.6% from RMB53.9 billion in 2015 to RMB47.1 billion in 2016, primarily due to a decrease in the number of smartphones sold. The cost of inventories recognized as expense and included in cost of sales of smartphones segment decreased by 18.5% from RMB50.2 billion in 2015 to RMB40.9 billion in 2016. Royalty fees paid to third-party intellectual property holders increased by 18.8% from RMB1.6 billion in 2015 to RMB1.9 billion in 2016. Warranty expenses decreased by 18.2% from RMB1.1 billion in 2015 to RMB0.9 billion in 2016, and provision for impairment of inventories decreased by 73.5% from RMB764.8 million in 2015 to RMB203.0 million in 2016.

IoT and lifestyle products

Cost of sales from the IoT and lifestyle products segment increased by 31.7% from RMB8.7 billion in 2015 to RMB11.4 billion in 2016, primarily due to the increase in our IoT and lifestyle product revenues.

Internet services

Cost of sales in the internet services segment significantly increased by 100.7% from RMB1.1 billion in 2015 to RMB2.3 billion in 2016, primarily due to increased amount of revenues

shared with game developers as well as our increased infrastructure service spending resulting from higher user traffic and engagement. Revenues shared with game developers and video providers increased by 45.3% from RMB737.6 million in 2015 to RMB1.1 billion in 2016. Cloud service, bandwidth and server custody fees increased by 91.8% from RMB313.6 million in 2015 to RMB601.5 million in 2016.

Others

Cost of sales in our others segment decreased by 9.3% from RMB408.6 million in 2015 to RMB370.6 million in 2016, primarily due to the decrease of repairing fees.

Gross profit and gross margin

As a result of the foregoing, our gross profit significantly increased by 168.5% from RMB2.7 billion in 2015 to RMB7.2 billion in 2016. We had a gross loss margin of 0.3% from our smartphones segment in 2015, compared to a gross profit margin of 3.4% in 2016, primarily due to changes in product mix among which relatively more products in 2016 had higher gross profit margin. The gross profit margin from our IoT and lifestyle products segment increased significantly from 0.4% in 2015 to 8.2% in 2016, primarily due to the introduction of new and enhanced models, our expanded product category offerings, as well as the rapid growth of our sales volume, resulting in significant economies of scale. The gross profit margin from our internet services segment increased from 64.2% in 2015 to 64.4% in 2016. In 2016, we also generated a significantly higher percentage of our total revenues from our IoT and lifestyle products segment and internet services segment, which have higher gross margins than our smartphones segment. Our gross margin increased from 4.0% in 2015 to 10.6% in 2016.

Selling and marketing expenses

Our selling and marketing expenses increased by 58.0% from RMB1.9 billion in 2015 to RMB3.0 billion in 2016, primarily due to a significant increase in our promotion and advertising efforts to promote our products, services and brand, which are complementary to our word-of-mouth marketing approach through the sales of our products. Promotion and advertising expenses increased significantly from RMB152.9 million in 2015 to RMB963.4 million in 2016, primarily due to more promotion and advertising activities we conducted related to the launch of our new products and the enhancement of our overall brand recognition.

Administrative expenses

Our administrative expenses increased by 21.0% from RMB0.8 billion in 2015 to RMB0.9 billion in 2016, primarily due to an increase in salaries and benefits (including employee benefit expenses and share-based compensation) relating to administrative personnel to support our growing business operations.

Research and development expenses

As we dedicated more resources towards our people, technology and infrastructure, our research and development expenses increased by 39.2% from RMB1.5 billion in 2015 to RMB2.1 billion in 2016, primarily due to an increase in the total compensation relating to research and development personnel as a result of the increased headcount as well as the increase in research and

development expenditures. Compensation relating to research and development personnel consisting of salaries and benefits (including employee benefit expenses and share-based compensation) increased primarily due to increased headcount. Our research and development personnel headcount increased by 50.1% from 2,292 as of December 31, 2015 to 3,441 as of December 31, 2016.

Fair value changes on investments measured at fair value through profit or loss

Our fair value changes on investments measured at fair value through profit or loss remained relatively stable at RMB2.8 billion in 2015 and RMB2.7 billion in 2016.

Share of losses of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 62.2% from RMB92.8 million in 2015 to RMB150.4 million in 2016 due to increased losses incurred by certain investments accounted for using the equity method.

Other income

Our other income increased by 3.5% from RMB522.4 million in 2015 to RMB540.5 million in 2016, primarily due to the new governments' grants, higher dividend income and higher value-added tax and other tax refund, partially offset by a decrease in investment income from short-term investments.

Other losses/gains, net

Our net other losses, net increased by 39.2% from RMB379.4 million in 2015 to RMB528.3 million in 2016, primarily due to a decrease in gains on disposal of long-term investments, partially offset by a decrease in foreign exchanges losses resulting from our increased U.S. dollar asset holdings.

Operating profit

As a result of the foregoing, we had operating profits of RMB1.4 billion and RMB3.8 billion in 2015 and 2016, respectively.

Finance (expense)/income, net

As a result of the foregoing, we had finance expenses of RMB85.9 million and RMB86.2 million in 2015 and 2016, respectively.

Fair value changes of convertible redeemable preferred shares

Fair value changes of convertible redeemable preferred shares was a loss of RMB8.8 billion in 2015, compared to a loss of RMB2.5 billion in 2016, resulting from changes in the valuation of our Company. See Note 35 to the Accountant's Report included in Appendix I to this **[REDACTED]** for details regarding the change in fair value of convertible redeemable preferred shares.

(Loss)/profit before income tax

As a result of the foregoing, we had a profit before income tax of RMB1.2 billion in 2016, compared with a loss before income tax of RMB7.5 billion in 2015.

Income tax expenses

Our income tax expenses increased from RMB154.5 million in 2015 to RMB683.9 million in 2016, primarily due to the fact that profit for entities subject to income tax increase.

(Loss)/profit for the year

As a result of the foregoing, we had a profit of RMB491.6 million in 2016, compared with a loss of RMB7.6 billion in 2015.

DISCUSSION OF CERTAIN KEY CONSOLIDATED BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in the Accountant's Report in Appendix I to this **[REDACTED]**.

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Total non-current assets	14,184,010	20,129,283	28,731,300
Total current assets	24,952,527	30,636,318	61,138,461
Total assets	39,136,537	50,765,601	89,869,761
Total non-current liabilities	109,310,565	116,760,214	169,947,781
Total current liabilities	16,464,280	26,063,262	47,132,671
Total liabilities	125,774,845	142,823,476	217,080,452
Net liabilities	(86,638,308)	(92,057,875)	(127,210,691)
Share capital	150	150	150
Reserves	(86,714,628)	(91,191,820)	(127,272,511)
Non-controlling interests	76,170	133,795	61,670
Total equity	(86,638,308)	(92,057,875)	(127,210,691)
Total equity and liabilities	39,136,537	50,765,601	89,869,761

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			(unaudited)
Current assets				
Inventories	8,643,183	8,378,342	16,342,928	[15,237,493]
Trade receivables	1,470,155	2,089,518	5,469,507	[5,689,848]
Loan receivables	100,980	1,598,063	8,144,493	[8,185,244]
Prepayments and other receivables	3,118,768	4,748,418	11,393,910	[11,260,984]
Short-term investments measured at amortized cost	1,629,000	80,000	800,000	[1,000,000]
Short-term investments measured at fair value through profit or loss	789,943	3,437,537	4,488,076	[2,644,754]
Short-term bank deposits	739,360	440,156	225,146	[28,198]
Restricted cash	67,060	633,964	2,711,119	[1,678,153]
Cash and cash equivalents	8,394,078	9,230,320	11,563,282	[14,220,213]
Total current assets	24,952,527	30,636,318	61,138,461	[59,944,887]
Current liabilities				
Trade payables	14,225,540	17,577,702	34,003,331	[29,464,513]
Other payables and accruals	1,275,068	1,876,267	4,223,979	[1,409,363]
Advance from customers	530,675	1,836,174	3,390,650	[4,648,044]
Borrowings	—	3,768,500	3,550,801	[5,806,972]
Income tax liabilities	101,345	257,558	421,113	[507,727]
Warranty provision	331,652	747,061	1,542,797	[1,798,361]
Total current liabilities	16,464,280	26,063,262	47,132,671	[43,634,980]
Net current assets	8,488,247	4,573,056	14,005,790	[16,309,907]

Inventories

Our inventories consist of raw materials, finished goods, work in progress and spare parts and others. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Raw materials	1,052,131	2,958,699	5,117,285
Work in progress	1,735,739	988,561	1,352,886
Finished goods	5,622,542	3,326,181	8,461,798
Spare parts	772,070	906,155	1,569,040
Others[(1)]	261,929	481,905	510,061
	9,444,411	8,661,501	17,011,070
Less: Provision for impairment[(2)]	(801,228)	(283,159)	(668,142)
Total	8,643,183	8,378,342	16,342,928

Notes:

(1) Others primarily comprise in-transit inventories.

(2) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expenses of inventory amounted to RMB777.0 million, RMB280.0 million and RMB652.6 million for the years ended December 31, 2015, 2016 and 2017, respectively.

Our inventories decreased by 3.1% from RMB8.6 billion as of December 31, 2015 to RMB8.4 billion as of December 31, 2016, primarily due to a decrease in finished goods of

RMB2.3 billion and a decrease in work in progress of RMB0.7 billion, partially offset by an increase in raw materials of RMB1.9 billion. Our finished goods decreased primarily due to improved sales as we launched new models of smartphones such as Mi MIX and Mi Note 2 in the second half of 2016. Our raw materials increased primarily due to increased procurement for production in anticipation of new product launches.

Our inventories significantly increased by 95.1% from RMB8.4 billion as of December 31, 2016 to RMB16.3 billion as of December 31, 2017, primarily due to an increase in raw materials of RMB2.2 billion and an increase in finished goods of RMB5.1 billion. Our raw materials increased primarily as we purchased an increased amount of raw materials for the production of Redmi Note 5 and Mi MIX 2S, the two new models of our smartphones launched in the first quarter of 2018. Our finished goods increased primarily due to the introduction of our Mi MIX 2 and Mi 6 in the second half of 2017 and the anticipated demand of their popularity.

The following table sets forth the number of our inventory turnover days for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
Inventory turnover days[(1)]	49	51	45

Note:

(1) Inventory turnover days for a period equals the average of the opening and closing inventory balances of the indicated period divided by the cost of sales for such period and multiplied by the number of days in such period, being 365 days for a full-year period.

Our inventory turnover days increased from 49 days for the year ended December 31, 2015 to 51 days for the year ended December 31, 2016. Our inventory turnover days decreased from 51 days for the year ended December 31, 2016 to 45 days for the year ended December 31, 2017 primarily due to faster sales cycle of our products.

RMB[7,955.5] million, or [94.0]%, of our finished goods as of December 31, 2017 had been sold as of March 31, 2018.

Trade Receivables

Trade receivables represent outstanding amount due from our customers or agents for the purchase of services we performed or inventories we sold in the ordinary course of business. Trade receivables are classified as current assets if they are expected to be collected in one year or less (or more than one year but within the normal operating cycle of the applicable business). Otherwise, they are presented as non-current assets. Trade receivables from third parties have credit periods within 180 days.

The following table sets forth our trade receivables as of the date indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Third parties	1,487,537	1,981,250	5,337,711
Related parties	13,177	148,316	188,616
	1,500,714	2,129,566	5,526,327
Less: allowance for impairment	(30,559)	(40,048)	(56,820)
Total	1,470,155	2,089,518	5,469,507

Our trade receivables increased by 42.1% from RMB1.5 billion as of December 31, 2015 to RMB2.1 billion as of December 31, 2016, primarily due to significant growth in our internet services and our increased sales overseas, especially in certain overseas markets with longer receivable days.

Our trade receivables significantly increased by 161.8% from RMB2.1 billion as of December 31, 2016 to RMB5.5 billion as of December 31, 2017, primarily due to the overall growth of our product sales, an increase in trade receivables associated with distributors in overseas markets and the development of our internet services.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Trade receivables			
Up to 3 months	1,319,371	1,943,643	5,099,590
3 to 6 months	115,680	115,885	302,354
6 months to 1 year	62,083	38,097	39,028
1 to 2 years	3,580	30,840	53,613
Over 2 years	—	1,101	31,742
Total	1,500,714	2,129,566	5,526,327

The following table sets forth the number of turnover days for our trade receivables for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
Trade receivables turnover days[1]	7	9	12

Note:

(1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables divided by revenue for the same period and multiplied by 365 days for a full-year period.

There were no significant fluctuations in the trade receivables turnover days for the years ended December 31, 2015, 2016 and 2017.

RMB[5.0] billion, or [90.7]%, of our trade receivables as of December 31, 2017 had been settled as of March 31, 2018. Approximately RMB[149.3] million of our trade receivables due from related parties as of December 31, 2017 had been settled as of March 31, 2018.

Loan Receivables

Our loan receivables primarily comprise loans from our subsidiaries that engage in internet finance business to its customers.

Our loan receivables increased significantly from RMB101.0 million as of December 31, 2015 to RMB1.6 billion as of December 31, 2016, and further to RMB8.1 billion as of December 31, 2017, primarily due to a growth of our internet finance business.

RMB[4,541.4] million, or [53.9]%, of our loan receivables as of December 31, 2017 had been repaid as of March 31, 2018.

Prepayments and Other Receivables

Prepayments and other receivables primarily comprise receivables from outsourcing partners for outsourcing of raw materials, recoverable value-added tax and other taxes, receivables from import and export agents, prepayments to suppliers, loans to related parties, prepaid fees for establishing loan facilities and other prepaid expenses, receivables from market development fund, receivables from disposal of investments, deposits to suppliers, receivables from employees related to the Employee Fund and interest receivables.

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Receivables from outsourcing partners for supply of raw materials	347,639	1,929,600	5,663,419
Recoverable value-added tax and other taxes	1,657,857	1,173,704	3,387,401
Receivables from import and export agents	—	132,493	644,766
Prepayments to suppliers	350,516	114,770	304,286
Loans to related parties	76,463	74,329	62,143
Prepaid fees for establishing loan facilities and other prepaid expenses	143,731	183,248	195,592
Receivables from market development fund	—	105,654	199,751
Receivables from disposal of investments	203,831	164,281	108,056
Deposits to suppliers	28,795	563,688	96,913
Receivables from employees related to the Employee Fund	156,200	142,200	114,850
Interest receivables	21,826	21,401	104,521
Others	131,910	143,050	512,212
Total	3,118,768	4,748,418	11,393,910

For our hardware product sales in India, we deliver raw materials to our outsourcing partners in India, who then assemble such raw materials into finished goods that are sold to our local operating subsidiary. The increase in receivables from outsourcing partners for supply of raw materials between 2015 and 2017 is generally a result of the rapid growth of our product sales in India.

Short-term Investments Measured at Amortized Cost

Our short-term investments measured at amortized cost comprise bank wealth management products issued by major and reputable commercial banks with guaranteed returns. As of December 31, 2015, 2016 and 2017, none of these investments are past due.

Our short-term investments measured at amortized cost decreased from RMB1.6 billion as of December 31, 2015 to RMB80.0 million as of December 31, 2016, primarily due to the reduction of the purchase of wealth management products with low guaranteed returns in order to seek for better returns in products with floating rate. As a result, the purchase of short-term investments measured at amortized cost is only RMB1.2 billion compared to a RMB2.7 billion in maturity in the year of 2016. Our short-term investments measured at amortized cost significantly increased from RMB80.0 million as of December 31, 2016 to RMB0.8 billion in 2017, primarily due to higher amount of cash generated from operating activities and increased purchase of wealth management products from banks with guaranteed returns.

Short-term Investments Measured at Fair Value through Profit or Loss

Our short-term investments measured at fair value through profit or loss comprise wealth management products issued by major and reputable commercial banks without guaranteed returns. As of December 31, 2015, 2016 and 2017, none of these investments are past due.

Our short-term investments measured at fair value through profit or loss increased from RMB0.8 billion as of December 31, 2015 to RMB3.4 billion as of December 31, 2016, and further by 30.6% to RMB4.5 billion in 2017, primarily due to increased purchase of wealth management products from banks.

Long-term Investments Measured at Fair Value through Profit or Loss

The following table sets forth our long-term investments measured at fair value through profit or loss as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Long-term investments measured at fair value through profit or loss			
Equity investments			
Listed	3,026,959	3,302,689	5,764,532
Unlisted	851,682	1,201,237	1,683,719
Preferred shares investments	4,512,153	7,845,272	11,408,710
Total	8,390,794	12,349,198	18,856,961

The investees of our preferred shares investments are principally engaged in the business related to IoT and lifestyle products, media and entertainment, mobile internet, internet finance and artificial intelligence. These investments are typically convertible redeemable preferred shares or ordinary shares with preferential rights. We have the right to require and demand the investees to redeem all of the shares held by us at guaranteed predetermined fixed amount at the redemption events, which are out of the control of the issuers. Hence, these investments are accounted for as debt instrument investments and are measured at financial assets at fair value through profit or loss.

Our long-term investments measured at fair value through profit or loss increased by 47.2% from RMB8.4 billion as of December 31, 2015 to RMB12.3 billion as of December 31, 2016, and further by 52.7% to RMB18.9 billion as of December 31, 2017, reflecting the overall increase in our investment activities and the valuation of our investee companies.

Our long-term investments in publicly traded securities remained relatively stable from RMB3,027.0 million as of December 31, 2015 to RMB3,302.7 million as of December 31, 2016 and increased by 74.5% to RMB5,764.6 million as of December 31, 2017, reflecting the overall increase of the market value of our public investee companies.

Land Use Rights and Prepayment for Land Use Rights

Land use rights represent prepayments for the land use rights in mainland China, which are stated at cost initially and expensed on a straight-line basis over the periods of the leases. These land use rights are acquired primarily in order to construct our office complex. The authorized periods of the land use rights were 40 to 50 years.

Our prepayment to land use rights was RMB2.6 billion, nil and nil as of December 31, 2015, 2016 and 2017, respectively. Our land use rights were nil, RMB3.5 billion and RMB3.4 billion as of December 31, 2015, 2016 and 2017, respectively. In 2015, we made a payment for the acquisition of certain land use rights for new office buildings for which we obtained the related certificates in 2016. Such payment was recorded in 2015 as prepayment and then recognized as land use rights in 2016. We paid an aggregate of RMB3.6 billion for the acquisition of land use rights for new office buildings, pursuant to the agreements entered into with the local governmental authorities or local governments in 2015 and 2016.

Intangible Assets

The following table sets forth a breakdown of our intangible assets as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Trademarks, patents and domain names	271,409	474,814	723,205
Licenses	637	371,579	1,279,951
Goodwill	248,167	248,167	248,167
Others	33,546	25,573	23,029
Total	553,759	1,120,133	2,274,352

Our intangible assets increased significantly by 102.3% from RMB553.8 million as of December 31, 2015 to RMB1.1 billion as of December 31, 2016, primarily due to an increase in license of RMB371.2 million as a result of our acquisition of a third-party payment license holder and the increase in trademarks, patents and domain names of RMB203.4 million, mainly as a result of our acquisition of certain patents.

Our intangible assets increased significantly by 103.0% from RMB1.1 billion as of December 31, 2016 to RMB2.3 billion as of December 31, 2017, primarily due to an increase in licensed rights to use intellectual property.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Trade payables primarily include payables for inventories and royalty fee.

Our trade payables increased by 23.6% from RMB14.2 billion as of December 31, 2015 to RMB17.6 billion as of December 31, 2016, and further increased by 93.4% to RMB34.0 billion as of December 31, 2017, primarily due to an increase in payables for inventories and royalty fee as a result of our increased inventory balances in anticipation of strong demand in light of the increasing popularity of certain models of our smartphones.

The following table sets forth an aging analysis of our trade payables, based on the invoice date, as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Up to 3 months	12,586,016	15,590,971	32,859,302
3 to 6 months	469,059	690,100	936,690
6 months to 1 year	786,894	606,043	180,060
1 to 2 years	383,292	687,632	22,525
Over 2 years	279	2,956	4,754
Total	14,225,540	17,577,702	34,003,331

The following table sets forth the number of turnover days for our trade payables for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
Trade payables turnover days[(1)]	76	95	95

Note:

(1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for the same period and multiplied by 365 days for a full-year period or the period generating the revenue.

Our trade payables turnover days increased from 76 for the year ended December 31, 2015 to 95 for the year ended December 31, 2016 primarily due to the increased use of post-payment in the settlement with suppliers instead of prepayment.

Our trade payables turnover days remained unchanged from the year ended December 31, 2016 to the year ended December 31, 2017 primarily due to the consistent practice of our supply-chain management.

RMB[31.8] billion, or [93.5]%, of our trade payables as of December 31, 2017 had been settled as of March 31, 2018.

Other Payables and Accruals

The following table sets forth our other payables and accruals as of the dates indicated:

	For the year ended December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Amounts collected for third parties	6,304	115,740	1,056,228
Payroll and welfare payables	264,387	403,872	694,887
Deposits payable	160,225	259,206	678,472
Employee fund	381,360	409,771	469,930
Accrual expenses	111,064	159,284	373,034
Payables for construction cost	—	142,520	241,881
Loans from related parties	31,184	50,873	51,336
Payables for investments	120,216	106,737	151,712
Other taxes payable	29,838	41,870	59,431
Others	170,490	186,394	447,068
Total	1,275,068	1,876,267	4,223,979

Our other payables and accruals increased from RMB1.3 billion as of December 31, 2015 to RMB1.9 billion as of December 31, 2016, primarily due to an increase in payables for construction

cost of RMB142.5 million, an increase in payroll and welfare payables of RMB139.5 million, an increase in deposits payable of RMB99.0 million and an increase in amounts collected for third party vendors on our online sales channels of RMB109.4 million.

Our other payables and accruals increased from RMB1.9 billion as of December 31, 2016 to RMB4.2 billion as of December 31, 2017, primarily due to an increase in amounts collected for third party vendors on our online sales channels of RMB0.9 billion, an increase in deposits payable of RMB419.3 million and an increase in payroll and welfare payables of RMB291.0 million.

RMB[3.0] billion, or [70.8]%, of our other payables and accruals as of December 31, 2017 had been settled as of March 31, 2018.

Advance from Customers

Advance from customers represents cash collected from our customers before their acceptance of products or our performance of services.

Our advance from customers increased from RMB530.7 million as of December 31, 2015 to RMB1.8 billion as of December 31, 2016 and further increased to RMB3.4 billion as of December 31, 2017, primarily due to the overall growth in our business operations and the increasing popularity of our products and services.

RMB[3.2] billion, or [93.4]%, of our advance from customers as of December 31, 2017 had been settled as of March 31, 2018.

KEY RATIOS/METRICS

In addition to the measures presented in our consolidated financial statements, we use the following key ratios/metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions.

The following table sets forth our key ratios/metrics for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Total revenue growth (%)	N/A	2.4	67.5
Revenue growth for smartphones segment (%)	N/A	(9.2)	65.2
Number of smartphones sold (thousands)	66,546	55,419	91,410
Smartphone average selling price (RMB)	807.2	879.9	881.3
Revenue growth for IoT and lifestyle products segment (%)	N/A	42.9	88.9
Revenue of IoT and lifestyle products segment per smartphone sold (RMB)	130.6	224.0	256.5
Revenue growth for internet services segment (%)	N/A	101.8	51.4
End-of-the-period MIUI MAUs (millions)	112.2	134.8	170.8
Average internet services revenue per user[(1)] (RMB)	28.9	48.5	57.9
Gross margin for hardware[(2)] (%)	(0.2)	4.4	8.7
Gross margin for internet services segment (%)	64.2	64.4	60.2
Non-IFRS adjusted (loss)/profit[(3)] (RMB in thousands)	(303,887)	1,895,657	5,361,876
Non-IFRS net margin[(4)] (%)	(0.5)	2.8	4.7
Cash conversion cycle[(5)] (days)	(20)	(35)	(38)

Notes:

(1) Calculated as revenue for the internet services segment divided by end-of-the-period MIUI MAUs.

(2) Gross margin for hardware equals the sum of the gross profit for the smartphone segment and the IoT and lifestyle products segment divided by the total revenue from these two segments for the period indicated and multiplied by 100%.
(3) We define non-IFRS adjusted (loss)/profit as loss or profit for the period, as adjusted by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions.
(4) Represents non-IFRS adjusted (loss)/profit divided by the total revenue for the period indicated.
(5) Cash conversion cycle equals inventory turnover days, plus trade receivables turnover days, minus trade payables turnover days.

See "—Period-to-Period Comparison of Results of Operations—Year Ended December 31, 2017 Compared to Year Ended December 31, 2016" and "—Period-to-Period Comparison of Results of Operations—Year Ended December 31, 2016 Compared to Year Ended December 31, 2015" above for a discussion of the factors affecting our revenue growth, gross margin, during the respective periods. See "—Discussion of Certain Key Balance Sheets Items" above for a discussion of the inventory turnover days.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we had historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB8.4 billion, RMB9.2 billion and RMB11.6 billion as of December 31, 2015, 2016 and 2017, respectively.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the **[REDACTED]** received from the **[REDACTED]**. We currently do not have any plans for material additional external financing, except as described in this document.

The following table sets forth our cash flows for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Net cash (used in)/generated from operating activities	(2,601,311)	4,531,264	(995,669)
Net cash generated from/(used in) investing activities	873,395	(3,735,267)	(2,677,714)
Net cash generated from/(used in) financing activities	568,383	(72,141)	6,214,930
Net (decrease)/increase in cash and cash equivalents	(1,159,533)	723,856	2,541,547
Cash and cash equivalents at beginning of the year	9,264,955	8,394,078	9,230,320
Effects of exchange rate changes on cash and cash equivalents	288,656	112,386	(208,585)
Cash and cash equivalents at end of the year	8,394,078	9,230,320	11,563,282

Net Cash (Used in)/Generated from Operations

Net cash (used in)/generated from operations represents cash (used in)/generated from operations minus income tax paid. Cash (used in)/generated from operations primarily comprise our loss or profit for the period adjusted by non-cash items and changes in working capital.

For 2017, net cash used in operations amounted to RMB1.0 billion, representing cash generated from operations of RMB0.5 billion minus income tax paid of RMB1.5 billion. Cash used in operations was primarily due to our loss before income tax of RMB41.8 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB54.1 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB6.4 billion, and (ii) changes in working capital, which primarily comprised an increase in inventories of RMB8.6 billion, an increase in loan and interest receivables of

RMB6.9 billion related to our internet finance business, an increase in prepayments and other receivables of RMB6.6 billion and an increase in trade payables of RMB15.5 billion.

For 2016, net cash generated from operations amounted to RMB4.5 billion, representing cash generated from operations of RMB4.7 billion minus income tax paid of RMB0.2 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB1.2 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB2.5 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB2.7 billion, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB3.4 billion.

For 2015, net cash used in operations amounted to RMB2.6 billion for the year ended December 31, 2015, representing cash used in operations of RMB2.3 billion minus income tax paid of RMB0.3 billion. Cash used in operations was primarily due to our loss of RMB7.5 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB8.8 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB2.8 billion, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB1.6 billion, and a decrease in other payables and accruals of RMB2.4 billion.

Net Cash Generated from/(Used in) Investing Activities

For 2017, our net cash used in investing activities was RMB2.7 billion, which was mainly attributable to the net cash used in purchase and settlement of wealth management products (including short-term investments measured at fair value through profit or loss and short-term investments measured at amortized cost) of RMB1.7 billion, and capital expenditures of RMB1.2 billion.

For 2016, our net cash used in investing activities was RMB3.7 billion, which was mainly attributable to the net cash used in purchase and settlement of wealth management products of RMB1.1 billion, capital expenditures of RMB1.8 billion, and placement of long-term investments (including long-term investments measured at fair value through profit or loss and investments accounted for using the equity method) of RMB1.7 billion.

For 2015, our net cash generated from investing activities was RMB0.9 billion, which was mainly attributable to the net cash generated from purchase and settlement of wealth management products of RMB5.6 billion, partially offset by capital expenditures of RMB2.5 billion and placement of investments of RMB3.5 billion.

Net Cash Generated from/(Used in) Financing Activities

For 2017, our net cash generated from financing activities was RMB6.2 billion, which was mainly attributable to proceeds from borrowings of RMB11.2 billion mainly used to finance our internet finance business, partially offset by repayment of borrowings of RMB4.5 billion.

For 2016, our net cash used in financing activities was RMB72.1 million, which was mainly attributable to placement of restricted cash of RMB624.3 million and interest paid of RMB137.8 million, partially offset by proceeds from borrowings of RMB740.0 million.

For 2015, our net cash generated from financing activities was RMB568.4 million, which was mainly attributable to proceeds from borrowings of RMB3.2 billion and proceeds from issuance of

convertible redeemable preferred shares of RMB1.4 billion, partially offset by repayment of borrowings of RMB4.0 billion.

INDEBTEDNESS

Borrowings

As of December 31, 2015, 2016 and 2017, and March 31, 2018, we had total borrowings of RMB3.2 billion, RMB4.2 billion, RMB10.8 billion and RMB[14.1] billion, respectively.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost.

The following table sets forth our borrowings included in non-current liabilities and current liabilities as of the dates indicated:

	For the year ended December 31,			As of March 31,
	2015	2016	2017	2018
		(in thousands of RMB)		(unaudited)
Included in non-current liabilities:				
Asset-backed securities	—	390,000	2,400,105	[920,969]
Fund raised through trusts	—	—	400,000	[400,000]
Secured borrowings	—	—	714,107	[809,619]
Unsecured borrowings	3,246,800	—	3,737,100	[6,119,290]
Included in current liabilities:				
Pledged borrowings	—	300,000	729,404	[715,114]
Asset-backed securities	—	—	1,491,147	[2,587,998]
Fund raised through trusts	—	—	1,170,250	[2,343,860]
Unsecured borrowings	—	3,468,500	160,000	[160,000]

We entered into a three-year bank loan agreement on November 1, 2014. We drew down US$0.5 billion in term loan on July 13, 2015. The borrowings were unsecured and principally used for our business operations.

In 2016, we had short-term borrowings from the Bank of Ningbo that amounted to RMB350.0 million to finance our internet finance business. As of December 31, 2016, RMB50.0 million had been repaid, and the remaining borrowings were collateralized by a pledge of bank deposits of US$90.0 million, which was recorded as "restricted cash" in the consolidated balance sheets.

We completed several rounds of issuance of our asset-backed securities ("**ABS**") during the Track Record Period to finance our internet finance business. In 2016, we issued RMB500.0 million ABS, of which RMB390.0 billion represented senior tranche while RMB110.0 million represented subordinate tranches which were fully acquired by us.

During 2017, long-term borrowings of RMB714.1 million for our office building constructions were secured by construction in progress and land use rights amounted to approximately RMB3.6 billion.

We repaid the remaining borrowings from the Bank of Ningbo in 2017 and obtained new short-term borrowings that amounted to RMB350.0 million to finance our internet finance business.

We repaid the three-year term loan date November 1, 2014 on August 2, 2017 and entered into another three-year facility bank loan agreement on July 26, 2017. We drew down a US$0.5 billion term loan on August 2, 2017.

In 2017, we also issued ABS amounting to RMB4.8 billion of which RMB3.9 billion represented senior tranche while RMB856.0 million represented subordinate tranches which were fully acquired by the Group and RMB166.4 million was repaid by the Group. We also raised several rounds of funds amounting to RMB1.2 billion through third party trusts. These financing activities were undertaken to finance our internet finance business.

As of December 31, 2015, 2016 and 2017, the annual interest rate of the interest-bearing liabilities ranges from 2.56% to 2.61%, 2.95% to 4.79%, and 2.22% to 9.00%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with each of the lenders mentioned above. Our Directors confirm that we are not subject to other material covenants under any agreements with respect to any bank loans or other borrowings. Our Directors also confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position, our Directors are of the opinion that we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of December 31, 2017.

CONTINGENT LIABILITIES

As of December 31, 2015, 2016 and 2017, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table sets forth our capital expenditures and placement for long-term investments for the periods indicated:

	For the year ended December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Capital expenditures	2,524,356	1,826,245	1,217,806
Placement for long-term investments[1]	2,891,017	809,882	813,175
Total	5,415,373	2,636,127	2,030,981

Note:

(1) Placement for long-term investments during our Track Record Period represents equity investments and preferred share investments.

Our historical capital expenditures primarily were on property and equipment resulting from the construction of and improvements made to our office complex, as well as intangible assets. We funded our capital expenditure requirements and placement for long-term investments during the Track Record Period mainly from cash generated from our operating activities and bank borrowings. Our capital expenditures and placement for long-term investments amounted to RMB5.4 billion, RMB2.6 billion and RMB2.0 billion for 2015, 2016 and 2017, respectively.

We plan to fund our planned capital expenditures and long-term investments measured at fair value through profit or loss using cash flows generated from our operations and the **[REDACTED]**

received from the **[REDACTED]**. See "Future Plans and Use of **[REDACTED]**" in this **[REDACTED]** for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments measured at fair value through profit or loss based on our ongoing business needs.

See "Business—Risk Management and Internal Control—Investment Risk Management" in this **[REDACTED]** for a discussion of our investment policy and investment risk management.

CONTRACTUAL OBLIGATIONS

Our commitments primarily comprise capital expenditure contracted for but not yet incurred during the periods, operating lease commitments and other commitments.

Capital Commitments

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Property and equipment	75,351	273,789	1,486,029
Intangible assets	239,866	159,280	112,888
Investments	349,027	305,281	198,788
Total	664,244	738,350	1,797,705

Operating Lease Commitments

We lease office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The table below sets forth our future aggregate minimum lease payments under non-cancellable operating leases:

	As of December 31,		
	2015	2016	2017
	(in thousands of RMB)		
Not later than 1 year	72,409	273,145	258,230
Later than 1 year and not later than 5 years	93,747	411,999	280,613
Total	166,156	685,144	538,843

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, except for the financial guarantee contracts, we had not entered into any off-balance sheet arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into a number of transactions with related parties in relation to the sales and purchases of goods and services with our associates or associates of Lei Jun. In 2015, 2016 and 2017, (i) sales of goods and services to related parties amounted to RMB83.3 million, RMB614.9 million and

RMB765.9 million, respectively; and (ii) purchases of goods and services from related parties amounted to RMB4.4 billion, RMB7.1 billion and RMB13.3 billion, respectively. As of December 31, 2015, 2016 and 2017, (i) trade receivables from related parties amounted to RMB13.2 million, RMB148.3 million and RMB188.6 million, respectively; (ii) trade payables to related parties amounted to RMB0.8 billion, RMB2.1 billion and RMB3.2 billion, respectively, (iii) other receivables from related parties amounted to RMB110.1 million, RMB145.4 million and RMB181.8 million, respectively, (iv) other payables to related parties amounted to RMB18.7 million, RMB112.1 million and RMB424.6 million, respectively, (v) prepayments to related parties amounted to RMB9.6 million, RMB40.6 million and RMB67.3 million, respectively, (vi) loans to related parties amounted to RMB76.5 million, RMB74.3 million and RMB62.1 million, respectively, and (vii) loans from related parties amounted to RMB31.2 million, RMB50.9 million and RMB51.3 million, respectively. For more details about our related party transactions, see Note 39 to the Accountant's Report included in Appendix I to this **[REDACTED]**.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Market Risk

Foreign Exchange Risk

Our transactions are denominated and settled in our functional currency, U.S. dollars. Our subsidiaries primarily operate in mainland China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners.

For our subsidiaries whose functional currency is the RMB, if RMB had strengthened or weakened by 5% against the U.S. dollars with all other variables held constant, the profit before income tax for the year ended December 31, 2015 would have been approximately RMB36.0 million higher or lower as a result of net foreign exchange gains on translation of net monetary liabilities denominated in U.S. dollars, and the profit before income tax for the years ended 2016 and 2017 would have been approximately RMB147.3 million higher or lower and RMB124.4 million higher or lower, respectively, as a result of net foreign exchange losses on translation of net monetary assets denominated in U.S. dollars.

Interest Rate Risk

Our interest rate risk primarily arose from borrowings with floating and fixed rated (details of which have been disclosed in Note 3.1(a) to the Accountant's Report in Appendix I to this **[REDACTED]**),

short-term investments measured at amortized cost, loan receivables, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher or lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017, would have been approximately RMB16.2 million lower or higher, approximately RMB18.8 million lower or higher, and RMB16.3 million lower or higher, respectively. This analysis does not include the effect of interest capitalized.

If the interest rate of cash and cash equivalents had been 50 basis points higher or lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017, would have been RMB42.0 million higher or lower, RMB46.2 million higher or lower, and RMB57.8 million higher or lower, respectively.

We regularly monitor our interest rate risk to ensure there is no undue exposure to significant interest rate movements.

Price Risk

We are exposed to price risk in respect of our long-term investments and short-term investments measured at fair value through profit or loss held by us. We are not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by senior management on a case-by-case basis. The sensitivity analysis is performed by our management. See Note 3.3 to the Accountant's Report included in Appendix I to this **[REDACTED]** for details.

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, short-term bank deposits, restricted cash, short-term investments measured at amortized cost, loan receivables, trade receivables, other receivables and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, short-term bank deposits, restricted cash and short-term investments, we only transact with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of our counterparties. The credit period granted to our customers is usually no more than 180 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, our management believes that the credit risk inherent in our outstanding trade receivable balances due from them is not significant.

For other receivables, our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records

and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, our management believes that the credit risk inherent in our outstanding other receivable balances due from them is not significant.

For financial guarantee contracts, we have taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is approximately RMB2.2 billion, the majority of which is not credit-impaired on initial recognition or does not result in significant increase in credit risk subsequently. We have recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, we perform standardized credit management procedures. For pre-approval investigation, we use our platform and systems using big data technology to optimize the review process, aspects including credit analysis, assessment of collectability of borrowers, and possibility of misconduct and fraudulent activities. In terms of credit examining management, we have established specific policies and procedures to assess loans offering. For subsequent monitoring, we implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, we have established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. We measure credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("**ECL**") under IFRS 9.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjusted financing arrangements to meet our liquidity requirements.

For the analysis of our non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date, please see Note 3.1(c) to the Accountant's Report included in Appendix I to this **[REDACTED]**.

	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
	(in thousands of RMB)				
At December 31, 2015					
Borrowings	—	3,246,800	—	—	3,246,800
Trade payables	14,225,540	—	—	—	14,225,540
Other payables	938,463	71,581	—	—	1,010,044
At December 31, 2016					
Borrowings	3,768,500	390,000	—	—	4,158,500
Trade payables	17,577,702	—	—	—	17,577,702
Other payables	1,347,907	1,081	—	—	1,348,988
At December 31, 2017					
Borrowings	3,550,801	2,820,105	3,717,184	714,023	10,802,113
Trade payables	34,003,331	—	—	—	34,003,331
Other payables	3,568,286	206,935	216,496	143,953	4,135,670
Off-balance sheet guarantee liabilities	2,152,169	—	—	—	2,152,169

FUTURE DIVIDENDS

We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will also depend on the availability of dividends received from our subsidiaries. Chinese laws require that dividends be paid only out of the profit for the year calculated according to Chinese accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRS. Chinese laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits as the statutory common reserve fund until the cumulative amount of the statutory common reserve fund reaches 50% or more of such enterprises' registered capital, if any, to fund its statutory common reserves, which are not available for distribution as cash dividends.

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

WORKING CAPITAL

Taking into account the financial resources available to us including our cash and cash equivalents on hand, the available banking facilities and the estimated **[REDACTED]** from the **[REDACTED]**, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this **[REDACTED]**.

DISTRIBUTABLE RESERVES

As of December 31, 2017, we did not have any distributable reserves.

[REDACTED]

[REDACTED]

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this **[REDACTED]**, there has been no material adverse change in our financial or trading position or prospects since December 31, 2017, being the end date of the periods reported on in the Accountant's Report in Appendix I to this **[REDACTED]**, and there is no event since December 31, 2017 that would materially affect the information as set out in the Accountant's Report in Appendix I to this **[REDACTED]**, except as described below.

On April 2, 2018, we issued 63,959,619 Class B Shares (or **[REDACTED]** Class B Shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity controlled by Lei Jun, to reward Lei Jun for his contributions to our Company.

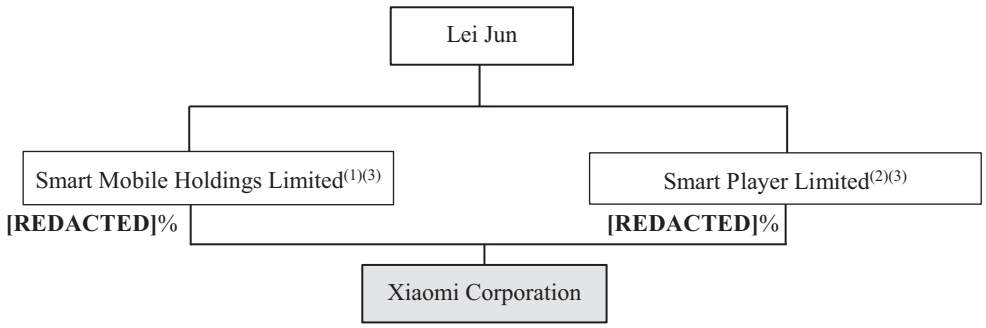
DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this **[REDACTED]**, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

CONTROLLING SHAREHOLDERS

Immediately after the completion of the **[REDACTED]**, Lei Jun, our executive Director, Founder, Chairman and Chief Executive Officer, will be interested in and will control, through various intermediary entities, **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares (assuming all Preferred Shares are converted into Class B Shares upon **[REDACTED]**). Assuming [the **[REDACTED]** is not exercised and] no Shares are issued pursuant to the exercise of options granted under the Pre-**[REDACTED]** ESOP, Lei Jun's aggregated shareholding will be approximately **[REDACTED]**% of our issued share capital and he will hold approximately **[REDACTED]**% of the voting rights in the Company capable of being exercised on resolutions in general meetings (except for resolutions with respect to a limited number of Reserved Matters, in relation to which each share is entitled to one vote). Therefore, Lei Jun will be a Controlling Shareholder after the **[REDACTED]**. Lei Jun holds his interests in the Company through various intermediary entities including Smart Mobile Holdings Limited and Smart Player Limited. Pursuant to the Voting Proxy Agreements, certain minority shareholders have also granted Lei Jun a voting proxy over Class B Shares representing **[REDACTED]**% of the issued share capital or **[REDACTED]**% of the voting rights of the Company, immediately upon completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] no Shares are issued pursuant to the exercise of options granted under the Pre-**[REDACTED]** ESOP) in relation to resolutions other than the Reserved Matters.

The following diagram illustrates the ultimate beneficial interest of our Controlling Shareholders' voting rights immediately following the completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised):



(1) Immediately after the completion of the **[REDACTED]**, Smart Mobile Holdings Limited will hold **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares, representing an aggregate of approximately **[REDACTED]**% of the voting rights in the Company (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised). Each Class A Share has 10 votes per share and each Class B Share has one vote per share, capable of being exercised on resolutions in general meeting. For the Reserved Matters, the Class A Shares carry one vote per share, and in relation to the Reserved Matters, the aggregate percentage of voting rights Lei Jun may exercise is approximately **[REDACTED]**%.

(2) Immediately after the completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised), Smart Player Limited will hold **[REDACTED]** Class B Shares, representing approximately **[REDACTED]**% of the voting rights in the Company capable of being exercised on resolutions in general meetings and approximately **[REDACTED]**% of the voting rights in the Company in relation to the Reserved Matters.

(3) Smart Mobile Holdings Limited and Smart Player Holdings Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn held by Parkway Global Holdings Limited. The entire interest in Parkway Global Holdings Limited is held through a trust which was established by Lei Jun (as the settlor) for the benefit of Lei Jun and his family.

For further information about the weighted voting rights attached to the Class A Shares, please refer to the section headed "Share Capital."

Lei Jun is a renowned angel investor in mainland China. Apart from his interest and directorship in the Company, Lei Jun holds non-executive board positions and non-controlling equity

interests in certain publicly listed companies. As these companies operate as separate businesses and have their own separate shareholder bases as listed companies, Lei Jun has no current intention to inject any of these interests into our Company.

Lei Jun is a co-founder of, and as of the Latest Practicable Date was a non-executive director, chairman of the board of directors, a member of the remuneration committee and controlled less than 30% of the voting power of, Kingsoft Corporation Limited (HKEx Stock Code: 3888) ("**Kingsoft**"). Lei Jun also holds board positions in certain group companies of Kingsoft. Kingsoft is principally involved in (i) research and development of games, and provision of online games, mobile games and casual game services, (ii) provision of cloud storage and cloud computation services; and (iii) design, research and development and sales and marketing of the office software products and services of WPS Office.

From October 2010 to March 2018, Lei Jun was a director of Cheetah Mobile Inc. (NYSE ticker: CMCM) ("**Cheetah Mobile**"). Lei Jun held less than 2% of the issued share capital of Cheetah Mobile as of the Latest Practicable Date. Cheetah Mobile operates a platform that offers mobile and PC applications for their customers and global content promotional channels for their customers, based on Cheetah Mobile's proprietary cloud-based data analytics engines.

From July 2011 to August 2016, Lei Jun was the chairman of YY Inc. (Nasdaq ticker: YY) ("**YY**"). Lei Jun held less than 20% of the issued share capital of YY as of the Latest Practicable Date. YY is a live streaming platform that enables users to interact in live online group activities through voice, text and video. YY allows its users to create and organize groups of varying sizes to discover and participate in a wide range of online activities, including music shows, online games, dating shows, live game broadcasting and e-learning.

As part of our triathlon business model, while we derived a significant majority of our revenue during the Track Record Period from sales of smartphones and other products, we also engage in internet services. We derive our internet services revenue primarily from advertising and other internet value-added services, including online games. We also provide cloud storage and cloud computing services to our users through Mi Cloud. For further details of our business operations, please see section headed "Business—Our Business." While we operate in certain internet related sectors similar to Kingsoft, Cheetah Mobile and YY, our Directors consider that there is no material competition between Kingsoft, Cheetah Mobile or YY (on one hand) and our Group (on the other hand), because of the fundamental difference in business models between each of them and our Group when taken as a whole. In particular, we derived approximately 90% or more of our revenue from the sales of our smartphones, and our IoT and lifestyle products during the Track Record Period, while neither Kingsoft, Cheetah Mobile or YY is engaged in the design and production of smartphones and other IoT and lifestyle products. Furthermore, through our triathlon business model, we acquire our user base primarily through sales of our products and strategically provide internet services to this user base.

Lei Jun is also a founding partner of Shunwei Capital ("**Shunwei**"), which consists of investment funds, specializing in incubation, start-ups, early to mid-stage and growth capital investments in internet and technology industries. While Shunwei may acquire non-controlling interests in certain businesses that operate in technology and internet sectors similar to those in which our Group operates, Shunwei is a pure financial investor, and generally has no management or shareholding control over any of its investee companies. We therefore do not believe that Shunwei competes in any material way with our Group. In addition to the minority investments held by

Shunwei, Lei Jun also personally holds a number of minority interests in private companies in a variety of sectors, none of which, to the best of Lei Jun's knowledge, materially compete with our Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and his close associates after the **[REDACTED]**.

Management Independence

Our business is managed and conducted by our Board and senior management. Upon **[REDACTED]**, our Board will consist of seven Directors comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. For more information, please see the section headed "Directors and Senior Management."

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders because:

(a) each Director is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;

(b) our daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;

(c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;

(d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions; and

(e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. Please see "—Corporate Governance Measures" in this section for further information.

Based on the above, our Directors believe that our Board as a whole and together with our senior management team are able to perform the managerial role independently from our Controlling Shareholders.

Operational Independence

Our Group is not operationally dependent on the Controlling Shareholders. Save as disclosed in the sections headed "Business—Our Business—Licenses, Permits and Approvals," "Business—Our Business—Intellectual Property" and "Business—Our Business—Legal Proceedings and Compliance," our Group (through our subsidiaries and Consolidated Affiliated Entities) holds all material licenses

and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and an independent management team to operate our business.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

No loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective associates will be outstanding as of the **[REDACTED]**.

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on, our Controlling Shareholders and their respective close associates after the **[REDACTED]**.

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders confirm that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

(a) under the Articles, where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their respective associates has a material interest, the relevant Controlling Shareholders or associate will not vote on the relevant resolutions;

(b) our Company has established internal control mechanisms to identify connected transactions. Upon the **[REDACTED]**, if our Company enters into connected transactions with our Controlling Shareholders or any of its associates, our Company will comply with the applicable Listing Rules;

(c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between the Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;

(d) our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the purpose of their annual review;

(e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;

(f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;

(g) we have appointed Guotai Junan Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and

(h) we have established our audit committee, remuneration committee, nomination committee and corporate governance committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix 14 to the Listing Rules. All of the members of our audit committee, including the chairman, are independent non-executive Directors.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders' interests after the **[REDACTED]**.

CONNECTED PERSONS

The table below sets forth parties who will become, or we have agreed to treat as, our connected persons upon **[REDACTED]** and the nature of their connection with our Company:

Name	Connected relationship
The Xiaomi Finance Group	We have agreed to treat members of the Xiaomi Finance Group as connected subsidiaries (as defined in Rule 14A.16 of the Listing Rules)
Lei Jun	Lei Jun, executive Director, Founder, Chairman, Chief Executive Officer, Controlling Shareholder and substantial shareholder of our Company
SmartMi International Ltd ("**SmartMi**" together with its subsidiaries from time to time, the "**SmartMi Group**")	An associate of Koh Tuck Lye (as defined in Rule 14A.12A(1)(c) of the Listing Rules), our non-executive Director

We have entered into certain transactions that will constitute our continuing connected transactions after the **[REDACTED]** with the connected persons above.

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

	Transaction	Applicable Listing Rule	Waiver	Proposed annual cap for the years ending December 31, 2018	2019	2020
A	***Fully-exempt continuing connected transactions***					
1.	Data sharing and collaboration between the XM Group and the Xiaomi Finance Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
2.	Intellectual property licensing by the XM Group to the Xiaomi Finance Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
3.	Provision of marketing services by the Xiaomi Finance Group to the XM Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
4.	Provision of comprehensive support services by the Xiaomi Finance Group to the XM Group	Rule 14A.76(1)	N/A	N/A	N/A	N/A
5.	Provision of financial services by the Xiaomi Finance Group to the XM Group	Rule 14A.90	N/A	N/A	N/A	N/A
B	***Partially-exempt continuing connected transactions***					
1.	Provision of marketing services by the XM Group to the Xiaomi Finance Group	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	RMB339 million	RMB543 million	RMB828 million
2.	Provision of payment and settlement services by the Xiaomi Finance Group to the XM Group	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	RMB170 million	RMB250 million	RMB390 million

	Transaction	Applicable Listing Rule	Waiver	Proposed annual cap for the years ending December 31, 2018	2019	2020
3.	Supply of products by the XM Group to the Xiaomi Finance Group	Rule 14A.35 Rule 14A.76(2) Rule 14A.105	Announcement requirement	RMB173 million	RMB621 million	RMB1,087 million
4.	Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group	Rule 14A.76(1)	Announcement requirement	RMB133 million	RMB173 million	RMB213 million
C	***Non-exempt continuing connected transactions***					
1.	Provision of financial services by the XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans)	Rule 14A.35 Rule 14A.53 Rule 14A.105	Announcement and independent shareholders' approval	RMB12,770 million	RMB14,950 million	RMB14,550 million
2.	Collaboration between our Group and the SmartMi Group	Rule 14A.35 Rule 14A.36 Rule 14A.53 Rule 14A.105	Announcement requirement and independent shareholders' approval	RMB3,800 million	RMB6,500 million	RMB10,400 million
3.	Contractual Arrangements	Rule 14A.35 Rule 14A.36 Rule 14A.52 Rule 14A.53 Rule 14A.105	Announcement and independent shareholders' approval, annual cap, term of agreements limited to three years	N/A	N/A	N/A

1. The XMF Framework Agreement

(a) Background

Prior to the **[REDACTED]**, there were intra-group transactions among members of the XM Group and the Xiaomi Finance Group. One of the conditions to the waiver [granted] by the Stock Exchange in relation to the XMF Share Option Schemes is that we will treat each member of the Xiaomi Finance Group as a "connected subsidiary" (as defined in Rule 14A.16 of the Listing Rules) of our Company after the **[REDACTED]** and will comply with the relevant connected transactions requirements under Chapter 14A of the Listing Rules (save for the one-off XMF Restructuring Loans that arose in connection with the XMF Restructuring) for as long as we account for Xiaomi Finance as a subsidiary (see "Waivers from Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—XMF Share Option Scheme II"). Therefore, following the **[REDACTED]**, our intra-group transactions involving members of the XM Group, on one hand, and members of the Xiaomi Finance Group, on the other hand, will constitute our connected transactions under the Listing Rules. Details of these transactions as well as the waivers [granted] by the Stock Exchange from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out below.

On [●] 2018, our Company (for itself and on behalf of the XM Group) and Xiaomi Finance (for itself and on behalf of the Xiaomi Finance Group) entered into the XMF Framework Agreement, pursuant to which the XM Group and the Xiaomi Finance Group shall provide to each other or by one to the other, (i) supply of products; (ii) data sharing and collaboration; (iii) intellectual property licensing; (iv) payment and settlement services; (v) marketing services; (vi) comprehensive support services; and (vii) financial services.

The above continuing connected transactions will be for a term of three years from January 1, 2018 to December 31, 2020 (both days inclusive).

Any member of the XM Group and the relevant member of the Xiaomi Finance Group may enter into specific agreements in respect of any of the transactions above with a view to setting out the detailed terms, provided that such terms comply with the requirements of the Listing Rules and the XMF Framework Agreement.

Notwithstanding that members of the Xiaomi Finance Group are treated as our "connected subsidiaries" as a condition to the waiver [granted] by the Stock Exchange with respect to the XMF Share Option Scheme II, the XMF Group forms part of our Group and it is commercially reasonable for us to maximize intra-group synergies to facilitate the achievement of the various business objectives of our Group through the XMF Framework Agreement. Such arrangements have significant strategic advantages to our Group as a whole, particularly in terms of resources optimization and allocation, and the efficiency of intra-group coordination may also achieve considerable cost-savings to our Group as a whole. On the basis of the foregoing, our Directors are of the view that it is in the best interests of the Company and our Shareholders as a whole to continue with such transactions after the **[REDACTED]**.

(b) Details of the transactions contemplated under the XMF Framework Agreement

(1) Supply of products

The XM Group shall from time to time supply its products, including smartphones and other consumer electronic products, to the Xiaomi Finance Group. The purchase price for these products shall be determined based on their respective market price and agreed between the parties on a fair and reasonable basis.

For the three years ended December 31, 2015, 2016 and 2017, the total purchase price paid by the Xiaomi Finance Group to the XM Group was approximately RMB0.4 million, RMB0.2 million and RMB3.3 million, respectively.

As the highest relevant percentage ratio in respect of the supply of products from the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially exempt continuing connected transaction, exempt from the independent shareholders' approval requirements but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum amount of purchases by the Xiaomi Finance Group from the XM Group under this transaction of RMB173 million, RMB621 million and RMB1,087 million for the three years ending December 31, 2018, 2019 and 2020, respectively. The annual caps have been determined primarily based on the volume of products expected to be purchased by the Xiaomi Finance Group from the XM Group, which is expected to increase significantly on account of the anticipated launch of the product leasing business by the Xiaomi Finance Group and the future growth of such business. Such business of the Xiaomi Finance Group is expected to involve the Xiaomi Finance Group purchasing products such as smartphones from the XM Group and leasing them to consumer customers. We consider that there is significant consumer demand for such product leasing programs, which will in turn increase the volume of products the XMF Group will purchase from the XM Group.

(2) Data sharing and collaboration

The XM Group and the Xiaomi Finance Group shall contribute data collected or generated as a result of the use by users of the products or services of the XM Group or the Xiaomi Finance Group, as the case may be (subject to applicable laws and contractual requirements), to a big data platform that is jointly maintained by the XM Group and the Xiaomi Finance Group, and to which the XM Group and the Xiaomi Finance Group will have shared access.

No fees or other compensation are required to be paid by either party to the other party under this data sharing and collaboration arrangement. We have no historical transactions amounts for this transaction for the three years ended December 31, 2015, 2016 and 2017.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules this transaction will be a fully-exempt continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) Intellectual property licensing

The XM Group shall grant the Xiaomi Finance Group a royalty-free license for it to use certain trademarks, logos and domain names in connection with the branding of the products and services of the Xiaomi Finance Group. In addition, the XM Group shall grant the Xiaomi Finance Group a license for it to use certain patents and technologies owned and/or developed by the XM Group in connection with the products and/or services of the Xiaomi Finance Group. In return for the use of certain patents and technologies, the XM Group shall charge the Xiaomi Finance Group a royalty payment to be agreed between the parties on a fair and reasonable basis with reference to the significance of the relevant patents and technologies to the XMF Group and market practice of internet companies and/or other comparable companies generally in licensing similar patents or technologies.

We have no historical transaction amount for this transaction as we had not charged any royalty fees for such intra-group transactions for each of the three years ended December 31, 2015, 2016 and 2017.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules, this transaction will be a fully-exempt continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(4) Payment and settlement services

The Xiaomi Finance Group shall provide secure and reliable payment and settlement services and other ancillary services to the XM Group through the online and offline payment platforms and other payment services from time to time operated by the Xiaomi Finance Group.

The service charges are agreed between the parties on a fair and reasonable basis with reference to the market rates. Market rates refer to the rates at which the same or

similar types of services are provided to/by Independent Third Parties under normal commercial terms.

For the three years ended December 31, 2015, 2016 and 2017, the total service fees paid by the XM Group to the Xiaomi Finance Group amounted to approximately RMB40.3 million, RMB43.9 million and RMB49.9 million, respectively.

As the highest relevant percentage ratio in respect of this transaction is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially-exempt continuing connected transaction exempt from the independent shareholders' approval requirements but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable under this transaction of RMB170 million, RMB250 million and RMB390 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on historical transaction amounts and the volume of the transactions and payments expected to be facilitated through the platforms and services operated by the Xiaomi Finance Group. In particular, we expect that the continued expansion of the XM Group's new retail distribution platform will generate the XM Group's demand for the payment and settlement services of the Xiaomi Finance Group.

(5) Marketing services

The XM Group and the Xiaomi Finance Group shall provide comprehensive marketing services to each other, including online and mobile application marketing services, traffic re-direction, marketplace promotion, cross-marketing, marketing analytics, advertisements and pre-installation of applications on mobile devices.

The service charges are agreed between the parties on a fair and reasonable basis with reference to the market rates. Market rates refer to the rates at which the same or similar types of services are provided to/by Independent Third Parties under normal commercial terms.

Provision of marketing services by the XM Group to the Xiaomi Finance Group

For the three years ended December 31, 2015, 2016 and 2017, the total marketing service fees paid by the Xiaomi Finance Group to the XM Group amounted to approximately RMB9.7 million,

RMB1.8 million and RMB70.8 million, respectively. As a fast-growing business in a development phase, we expect that the Xiaomi Finance Group's marketing needs will significantly increase in the future as it seeks to generate and monetize user traffic.

As the highest relevant percentage ratio in respect of the provision of marketing services by the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially exempt continuing connected transaction exempt from the independent shareholders' approval requirement but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees receivable under this transaction of RMB339 million, RMB543 million and RMB828 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on our marketing directives and brand initiatives, the nature and extent of marketing services the XM Group may offer, the expected growth of the Xiaomi Finance Group as a fast-growing business in a development phase and increasing demand for marketing services and the relevant market penetration costs for the products and services of the Xiaomi Finance Group. In particular, with a view to promoting the mobile applications and services of the Xiaomi Finance Group, we expect to pre-install the mobile applications developed by the Xiaomi Finance Group on the smartphones of the XM Group. In return, the Xiaomi Finance Group shall pay certain amount of marketing fees to the XM Group. The annual caps above factor in the expected volume of smartphones that will be pre-installed with the Xiaomi Finance Group's mobile applications and in turn, the expected marketing fees payable by the Xiaomi Finance Group.

Provision of marketing services by the Xiaomi Finance Group to the XM Group

We have no historical transaction amounts for this transaction. As the user base, service platforms and operations of the Xiaomi Finance Group mature and diversify, we expect that it will generate collaborative marketing opportunities between the XM Group and the Xiaomi Finance Group. Leveraging such opportunities, we expect that the XM Group will be able to market and promote its products and services through the ecosystem and user traffic of the Xiaomi Finance Group going forward.

As the highest relevant percentage ratio in respect of the provision of marketing services by the Xiaomi Finance Group to the XM Group is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules this transaction will be a fully-exempt continuing connected transaction exempt from the reporting, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules.

(6) Comprehensive support services

The XM Group and Xiaomi Finance Group shall provide comprehensive support services to each other, including data servers and systems, human resources, labor services, administrative services, analytics, office space, office systems and support services, software and systems, legal and accounting services, sales services, market development, technical support services, research and development services, staff trainings and recruitment, management services, procurement function support services, information technology services, software development, product sales and agent services, operation and maintenance services and consultation services.

The service charges shall generally be determined based on the actual costs (including the corresponding overhead) for the provision of such services, or where appropriate with reference to pricing of comparable services available in the market.

Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group

We did not charge a substantial portion of the intra-group support services shared between the XM Group and the Xiaomi Finance Group in the past as they are operated as a single economic unit. For the three years ended December 31, 2015, 2016 and 2017, the total service fees paid by the Xiaomi Finance Group to the XM Group amounted to approximately nil, RMB28.2 million and RMB12.8 million, respectively.

As the highest relevant percentage ratio in respect of the provision of support services by the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, pursuant to Rule 14A.76(2)(a) of the Listing Rules this transaction will be a partially-exempt continuing connected transaction exempt from the independent shareholders' approval requirement but will subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable by the Xiaomi Finance Group to the XM Group under this transaction of RMB133 million, RMB173 million and RMB213 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on the operation level of the Xiaomi Finance Group relative to our Group as a whole with reference to the number of staff, and the expected increase in the major cost components of our Group, including labour costs, data server maintenance and operating costs, back office costs, rental and other property related expenses and other overhead.

Provision of comprehensive support services by the Xiaomi Finance Group to the XM Group

We did not charge a substantial portion of the intra-group support services shared between the XM Group and the Xiaomi Finance Group in the past as they are operated as a single economic unit. For the three years ended December 31, 2015, 2016 and 2017, the total service fees paid by the XM Group to the Xiaomi Finance Group amounted to approximately nil, RMB9.2 million and RMB32.6 million, respectively.

As the highest relevant percentage ratio in respect of the provision of support services by the Xiaomi Finance Group to the XM Group is expected to be, on an annual basis, less than 0.1% and it is on normal commercial terms, pursuant to Rule 14A.76(1)(a) of the Listing Rules, this transaction will be a fully-exempt continuing connected transaction, exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(7) Financial services

The XM Group and the Xiaomi Finance Group shall provide financial services to each other, including lending and other credit and guarantee services and other financial services that may include settlement services, acceptance of bills, entrusted loans, trust loans, credit verification, asset backed securitization and financing, financial and financing consultation, consultation and insurance.

With respect to the lending and other credit services, the lending interest rate will be determined with reference to the interest rate standard promulgated by the People's Bank of China and agreed between the parties on a fair and reasonable basis. With respect to the other financial services, the fees to be charged will comply with the relevant prescribed rates for such services as determined by the People's Bank of China or the China Banking Regulatory Commission. Where no relevant prescribed rate is applicable, the fee will be determined with reference to market rates of similar financial services and agreed between the parties on a fair and reasonable basis.

In connection with the XMF Restructuring, the XM Group advanced unsecured and interest-free XMF Restructuring Loans amounting to US$830 million and RMB299 million, respectively, as of the Latest Practicable Date on a one-off basis to the Xiaomi Finance Group. The XMF Restructuring Loans, which were made on the basis that Xiaomi Finance was at the time, and as of the Latest Practicable Date remains, a wholly-owned subsidiary of our Company, are not be subject to the XMF Framework Agreement.

Provision of financial services by the XM Group to the Xiaomi Finance Group

As at December 31, 2015, 2016 and 2017, the amount outstanding advanced or guaranteed by the Xiaomi Finance Group to/in favor of the XM Group was RMB2.9 million, RMB610.0 million and RMB5,625.0 million, respectively.

As the highest relevant percentage ratio in respect of the provision of financial services by the XM Group to the Xiaomi Finance Group is expected to be, on an annual basis, more than 5%, this transaction will be a non-exempt continuing connected transaction subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps (excluding the one-off XMF Restructuring Loans advanced by the XM Group to the Xiaomi Finance Group that arose in connection with the XMF Restructuring) for the maximum amount of financial services to be provided by the XM Group to the Xiaomi Finance Group under this transaction (inclusive of interest and fees received and anticipated to be received) of RMB12,770 million, RMB14,950 million and RMB14,550 million for the three years ending December 31, 2018, 2019 and 2020, respectively. Such maximum amount is applicable on a daily basis during the relevant year, and such maximum daily amount is calculated on an individual basis as outstanding at the end of each day during the relevant year without aggregating with the daily amount incurred on the days before.

The annual caps have been determined primarily based on the maximum amount of exposure at any time which the XM Group is prepared to undertake in the context of its estimated temporary surplus cash resources, our intra-group liquidity as well as the historical transaction amounts. The Xiaomi Finance Group is expected to engage in capital intensive business in the financial technology industry. As the Xiaomi Finance Group is still in a development phase, it would in the near future require substantial amount of intra-group funding from the XM Group to meet its capital requirements. In addition, going forward, we expect that the Xiaomi Finance Group will expand its product offerings (including supply chain financing business offering factoring services to suppliers) that will give rise to substantial capital requirements. We expect that there is significant demand for the factoring services expected to be offered by the Xiaomi Finance Group, and favourable government policies will be conducive to the substantial growth of such business, which will in turn increase the capital

requirements of the Xiaomi Finance Group. As the operations of the Xiaomi Finance Group mature, we expect that its reliance on the XM Group for financing will gradually decrease.

Provision of financial services by the Xiaomi Finance Group to the XM Group

As at December 31, 2015, 2016 and 2017, the amount outstanding advanced or guaranteed by the XM Group to/in favor of the Xiaomi Finance Group was nil, RMB1,003.1 million and RMB950.6 million, respectively.

We expect that the financial services to be provided by the Xiaomi Finance Group to the XM Group will be primarily financial assistance within the meaning of Rule 14A.23(4) of the Listing Rules and will be unsecured and conducted on normal commercial terms (or better to the XM Group). Therefore, such transactions will be fully-exempt continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

2. The SmartMi Framework Agreement

SmartMi is our major ecosystem partner that supplies our Group with smart air purifiers, air quality monitors and other smart hardware products. Through our collaboration with such ecosystem partner, we are able to launch a successful suite of air purifiers and related IoT devices that form an important component of our ecosystem. In particular, we were number one in terms of air purifier unit shipments globally in 2017, according to iResearch. On the basis of the foregoing, our Directors are of the view that it is in the best interests of our Company and our Shareholders as a whole to continue and strengthen such collaboration after the **[REDACTED]**.

On [●], 2018, our Company (for itself and on behalf of our Group) and SmartMi (for itself and on behalf of the SmartMi Group) entered into the SmartMi Framework Agreement, pursuant to which our Group shall purchase, and SmartMi Group shall supply, smart hardware products such as air purifiers and humidifiers. Our Group shall sell such products through its platforms and pay a certain amount of profit derived from such sale to the SmartMi Group (the "**Shared Profit**").

The above continuing connected transaction will be for a term of three years from January 1, 2018 to December 31, 2020 (both days inclusive).

Any member of our Group and any member of the SmartMi Group may enter into specific agreements in respect of the transactions contemplated under the SmartMi Framework Agreement with a view to setting out the detailed terms, provided that such terms comply with the requirements of the Listing Rules and the SmartMi Framework Agreement. The terms of the collaboration shall be determined on a fair and reasonable basis and shall be no less favorable to the XM Group than those offered to Independent Third Parties. In particular, the price for these products shall be determined on a cost-plus basis with generally not more than 2% margin and the amount of Shared Profit shall be determined with reference to the terms of collaboration between our Group with other ecosystem partners.

For the three years ended December 31, 2015, 2016 and 2017, the total amount of purchase price and Shared Profit paid by our Group to the SmartMi Group was approximately RMB481.9 million, RMB1,027.4 million and RMB1,931.0 million, respectively.

As the highest percentage ratio in respect of the collaboration between our Group and the SmartMi Group is expected to be, on an annual basis, more than 5%, this transaction will be a non-exempt continuing connected transaction subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate consideration (including purchase price and the Shared Profit) payable under this transaction of RMB3,800 million, RMB6,500 million and RMB10,400 million for the three years ending December 31, 2018, 2019 and 2020, respectively. These annual caps have been determined primarily based on (i) historical transaction amounts, (ii) the continuing demand for our suite of air purifiers and related products in various markets, (iii) reasonable increase in the unit price, (iv) buffer for unexpected increase in the demand for, or the selling price of, the relevant products and (v) our anticipation that the SmartMi Group will develop other smart hardware products that may be integrated into our ecosystem.

3. Contractual Arrangements

(a) Background

As disclosed in the section headed "Contractual Arrangements," due to regulatory restrictions on foreign ownership in the PRC, we conduct a portion of our business through our Consolidated Affiliated Entities in mainland China.

We do not hold any equity interests in our Consolidated Affiliated Entities. Rather, through the Contractual Arrangements, we effectively control these Consolidated Affiliated Entities and are able to derive substantially all of their economic benefits, and expect to continue to do so. The Contractual Arrangements among us, the WFOEs, our Consolidated Affiliated Entities and shareholders of our Consolidated Affiliated Entities enable us to (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entities in consideration for the services provided by the WFOEs; (ii) exercise effective control over our Consolidated Affiliated Entities; and (iii) hold an exclusive option to purchase all or part of the equity interests in our Consolidated Affiliated Entities when and to the extent permitted by PRC laws.

See the section headed "Contractual Arrangements" for details of the agreements comprising the Contractual Arrangements.

(b) Listing Rule implications

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," the Consolidated Affiliated Entities will be treated as our Company's wholly-owned subsidiary, and its directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our Company's "connected persons."

The transactions contemplated under the Contractual Arrangements are continuing connected transactions of our Company. The highest applicable percentage ratios (other than the profits ratio) under the Listing Rules in respect of the transactions associated with the Contractual Arrangements are expected to be more than 5%. As such, the transactions will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(c) Waiver application

(i) Reasons for the waiver application

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations, that such transactions have been and will be entered into in our ordinary and usual course of business, are on normal commercial terms or better and the terms are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Our Directors also believe that our structure, whereby the financial results of the consolidated affiliated entities are consolidated into our financial statements as if they were our Company's wholly-owned subsidiaries, and all the economic benefits of their business flows to our Group, places our Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company, for all the transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among other things, the announcement and approval of independent Shareholders.

In addition, given the Contractual Arrangements were entered into prior to the **[REDACTED]** and are disclosed in this **[REDACTED]**, and potential investors of our Company will participate in the **[REDACTED]** on the basis of such disclosure, our Directors consider that compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after **[REDACTED]** would add unnecessary administrative costs to our Company.

To ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- as part of the internal control measures, major issues arising from implementation and performance of the Contractual Arrangements will be reviewed by our Board on a regular basis which will be no less frequent than on a quarterly basis. Our Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements;
- matters relating to compliance and regulatory enquiries from governmental authorities, if any, will be discussed by our Board on a regular basis which will be no less frequent than on a quarterly basis;
- the relevant business units and operation divisions of our Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and
- our Company shall comply with the conditions prescribed under the waiver granted by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

(ii) Conditions of the waiver application

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are **[REDACTED]** on the Stock Exchange subject however to the following conditions.

No change without independent non-executive Directors' approval

Save as described below, no change to the Contractual Arrangements (including with respect to any fees payable to WFOEs thereunder) will be made without the approval of our independent non-executive Directors.

No change without independent Shareholders' approval.

Save as described below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company will however continue to be applicable.

Economic benefits and flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group's options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the Consolidated Affiliated Entities for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to the WFOEs by the Consolidated Affiliated Entities under the Contractual Arrangements, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced without obtaining the approval of our Shareholders: (i) upon the expiry of the existing arrangements, (ii) in connection with any changes to the Registered Shareholders or directors of the Consolidated Affiliated Entities, or (iii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise or operating company (including branch company),

engaging in a business similar or relating to those of our Group. Such renewal and/or reproduction is justified by business expediency. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Group and transactions between these connected persons and our Group other than those under similar Contractual Arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

Any renewed or reproduced framework will be on substantially the same terms and conditions as the existing Contractual Arrangements.

Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company's annual report and accounts in accordance with the relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Shareholders as a whole;
- our Company's auditors will carry out review procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by our Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," our Consolidated Affiliated Entities will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and its associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under

the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and

- our Consolidated Affiliated Entities will undertake that, for so long as the Shares are **[REDACTED]** on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditor's review of the connected transactions.

WAIVERS

We have applied for, and the Stock Exchange has [granted] us, waivers from strict compliance with the announcement requirements under the Listing Rules in respect of the partially-exempt continuing connected transactions mentioned above.

We have applied for, and the Stock Exchange has [granted] us in respect of the non-exempt continuing connected transactions contemplated under the XMF Framework Agreement and the SmartMi Framework Agreement, a waiver from strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

We have applied for, and the Stock Exchange has [granted] us, in respect of the Contractual Arrangements, (i) a waiver from strict compliance with announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules (ii) a waiver from strict compliance with the requirement to set a term of not exceeding three years under Rule 14A.52 of the Listing Rules; and (iii) waiver from strict compliance with the requirements to set monetary annual caps under Rule 14A.53(1) of the Listing Rules.

CONFIRMATION FROM THE DIRECTORS

Our Directors (including independent non-executive Directors) believe that the continuing connected transactions set out above have been entered into in our ordinary and usual course of business on normal commercial terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and the proposed annual caps (if any) in respect of continuing connected transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to our legal structure and business operations, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms or better and the terms are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

[Based on the documentation and data provided by us and participation in the due diligence and discussions with us, the Joint Sponsors are of the view that (i) the partially-exempt and non-exempt continuing connected transactions set out above have been and will be entered into during our ordinary and usual course of business on normal commercial terms, and are fair and reasonable and in the interest of our Company and our Shareholders as a whole; and (ii) the proposed annual caps (where applicable) of such partially-exempt and non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.]

AUTHORIZED AND ISSUED SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company immediately prior to and upon the completion of the **[REDACTED]**, assuming that (i) the **[REDACTED]** becomes unconditional and the **[REDACTED]** are issued pursuant to the **[REDACTED]**, [(ii) the **[REDACTED]** is not exercised, (iii)] the options granted under the Pre-**[REDACTED]** ESOP are not exercised, (iv) each Preferred Share is converted into one class B ordinary share of US$0.000025 each and (v) no Class A Shares are converted to Class B Shares.

1. Prior to the Share Subdivision and the [REDACTED] (assuming all Preferred Shares are converted into class B ordinary shares of US$0.000025 each of the Company)

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
688,385,679	class A ordinary share of US$0.000025 par value each	US$17,209.64
3,852,458,618	class B ordinary share of US$0.000025 par value each	US$96,311.47
Total		**US$113,521.11**

(ii) Issued and to be issued, fully paid or credited to be fully paid

669,518,772	class A ordinary share of US$0.000025 par value each	US$16,737.97
1,424,650,311	class B ordinary share of US$0.000025 par value each	US$35,616.26
Total		**US$52,354.23**

2. Immediately following the completion of the Share Subdivision and the [REDACTED]

(i) Authorized share capital

Number	Description of Shares	Approximate aggregate nominal value of shares
[REDACTED]	Class A Share	US$**[REDACTED]**
[REDACTED]	Class B Share	US$**[REDACTED]**
Total		US$**[REDACTED]**

(ii) Issued and to be issued, fully paid or credited to be fully paid

[REDACTED]	Class A Share in issue	US$**[REDACTED]**
[REDACTED]	Class B Share in issue	US$**[REDACTED]**
[REDACTED]	Class B Shares to be issued pursuant to the **[REDACTED]**	US$**[REDACTED]**
Total		US$**[REDACTED]**

The tables above do not take into account any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors referred to below.

WEIGHTED VOTING RIGHTS STRUCTURE

The Company is proposing to adopt a weighted voting rights structure effective immediately upon the completion of the **[REDACTED]**. Under this structure the Company's share capital will comprise Class A Shares and Class B Shares. Each Class A Share will entitle the holder to exercise 10 votes, and each Class B Share will entitle the holder to exercise one vote, respectively, on any resolution tabled at the Company's general meetings, except for resolutions with respect to a limited number of Reserved Matters, in relation to which each Share is entitled to one vote.

The Reserved Matters are:

(i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares;

(ii) the appointment, election or removal of any independent non-executive Director;

(iii) the appointment or removal of the Company's auditors; and

(iv) the voluntary liquidation or winding-up of the Company.

For further details, see the summary of the Articles of Association in Appendix III.

Immediately upon the completion of the Share Subdivision and **[REDACTED]**, the WVR Beneficiaries will be Lei Jun and Lin Bin. Lei Jun will beneficially own **[REDACTED]** Class A Shares, representing approximately **[REDACTED]**% of the voting rights in the Company (assuming [the **[REDACTED]** is not exercised and assuming] the options granted under the Pre-**[REDACTED]** ESOP are not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin will beneficially own **[REDACTED]** Class A Shares, representing approximately **[REDACTED]**% of the voting rights in the Company (assuming [the **[REDACTED]** is not exercised and assuming] the options granted under the Pre-**[REDACTED]** ESOP are not exercised) with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held on behalf of Lin Bin and his family members by Lin Bin as trustee of the Bin Lin Trust.

The Company is adopting the WVR structure to enable the WVR Beneficiaries to exercise voting control over the Company notwithstanding the WVR Beneficiaries do not hold a majority economic interest in the share capital of the Company. This will enable the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control the Company with a view to its long-term prospects and strategy.

The table below sets out the WVR structure of the Company upon the completion of the Share Subdivision and **[REDACTED]**:

	Number of Shares	Approximate percentage of issued share capital[(1)]	Approximate percentage of voting rights[(1)(2)]
Class A Shares	**[REDACTED]**	**[REDACTED]**%	**[REDACTED]**%
Class B Shares[(3)]	**[REDACTED]**	**[REDACTED]**%	**[REDACTED]**%
Total	**[REDACTED]**	**[REDACTED]**%	**[REDACTED]**%

Notes:

(1) The table above assumes [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised.

(2) On the basis that Class A Shares entitle the Shareholder to 10 votes per share and Class B Shares entitle the Shareholder to one vote per share.

(3) Assuming each Preferred Share is converted into one Class B Share.

Class A Shares may be converted into Class B Shares on a one to one ratio. Upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will

issue **[REDACTED]** Class B Shares, representing approximately **[REDACTED]**% the total number of issued and outstanding Class B Shares (assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised).

The weighted voting rights attached to our Class A Shares will cease when none of the WVR Beneficiaries have beneficial ownership of any of our Class A Shares, in accordance with Listing Rule 8A.22. This may occur:

(i) upon the occurrence of any of the circumstances set out in Listing Rule 8A.17, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of our Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;

(ii) when the Class A Shareholders have transferred to another person the beneficial ownership of, or economic interest in, all of the Class A Shares or the voting rights attached to them, other than in the circumstances permitted by Listing Rule 8A.18;

(iii) where a vehicle holding Class A Shares on behalf of a WVR Beneficiary no longer complies with Listing Rule 8A.18(2); or

(iv) when all of the Class A Shares have been converted to Class B Shares.

Prospective **[REDACTED]** are advised to be aware of the potential risks of **[REDACTED]** in companies with weighed voting rights structures, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of our Company and the outcome of shareholders' resolutions, irrespective of how other shareholders vote. Prospective **[REDACTED]** should make the decision to **[REDACTED]** in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to sections headed "Risk Factors—Risks Relating to the **[REDACTED]**—The concentration of our Share ownership limits our shareholders' ability to influence corporate matters" and "Risk Factors—Risks Relating to the **[REDACTED]**—Holders of our Class A Shares may exert substantial influence over us and may not act in the best interests of our independent Shareholders."

Save for the weighted voting rights attached to Class A Shares, the rights attached to all classes of Shares are identical. For further information about the rights, preferences, privileges and restrictions of the Class A Shares and Class B Shares, please see the section headed "Summary of the Constitution of our Company and Cayman Companies Law—Summary of the Constitution of the Company—Articles of Association" in Appendix III for further details.

RANKING

The **[REDACTED]** will rank *pari passu* in all respects with all Class B Shares currently in issue or to be issued as mentioned in this **[REDACTED]**, and will qualify and rank equally for all dividends or other distributions declared, made or paid on the Shares on a record date which falls after the date of this **[REDACTED]**.

ALTERATIONS OF CAPITAL

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders

(i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Cayman Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. See the section headed "Summary of the Constitution of our Company and Cayman Companies Law—Summary of the Constitution of the Company—Articles of Association—Alteration of Capital" in Appendix III for further details.

SHARE OPTION SCHEMES

The Company has adopted the Pre-**[REDACTED]** ESOP and the Post-**[REDACTED]** Share Option Scheme. See the sections headed "Statutory and General Information—Share Option Schemes—Pre-**[REDACTED]** ESOP" and "Statutory and General Information—Share Option Schemes—Post-**[REDACTED]** Share Option Scheme" in Appendix IV for further details.

Xiaomi Finance has adopted XMF Share Option Scheme I and XMF Share Option Scheme II. See the sections headed "Statutory and General Information—Share Option Schemes—XMF Share Option Scheme I" and "Statutory and General Information—Share Option Schemes—The XMF Share Option Scheme II" in Appendix IV for further details.

Pinecone International has adopted Pinecone Share Option Scheme I and Pinecone Share Option Scheme II. See the sections headed "Statutory and General Information—Share Option Schemes—Pinecone Share Option Scheme I" and "Statutory and General Information—Share Option Schemes—Pinceone Share Option Scheme II" in Appendix IV for further details.

GENERAL MANDATE TO ISSUE SHARES

Subject to the **[REDACTED]** becoming unconditional, our Directors have been granted a general unconditional mandate, exercisable on their behalf by Lei Jun, to allot, issue and deal with Class B Shares with a total nominal value of not more than the sum of:

- 20% of the aggregate nominal value of the Shares in issue immediately following completion of the **[REDACTED]** (excluding any Class B Shares to be [[sold] pursuant to the exercise of the **[REDACTED]**,] options which have been granted under the Pre-**[REDACTED]** ESOP, options which may be granted under the Post-**[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis); and
- the aggregate nominal value of Shares repurchased by the Company under the authority referred to in the paragraph headed "—General Mandate to Repurchase Shares" in this section.

This general mandate to issue Class B Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or

- the expiration of the period within which our Company's next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

See the section headed "Statutory and General Information—Further Information about our Company and our Subsidiaries and Consolidated Affiliated Entities—Resolutions of the Shareholders of our Company dated [●] 2018" in Appendix IV for further details of this general mandate.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the **[REDACTED]** becoming unconditional, our Directors have been granted a general unconditional mandate, exercisable on their behalf by Lei Jun, to exercise all the powers of our Company to repurchase our own securities with nominal value of up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the **[REDACTED]** (excluding any Class B Shares to be [[sold] pursuant to the exercise of the **[REDACTED]**,] options which have been granted under the Pre-**[REDACTED]** ESOP, options which may be granted under the Post-**[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis).

The repurchase mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares are listed (and which are recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information—Further Information about our Company and our Subsidiaries—Repurchase of our Own Securities" in Appendix IV.

This general mandate to repurchase Shares will expire at the earliest of:

- the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- the expiration of the period within which our Company's next annual general meeting is required by the Memorandum of Association and Articles of Association or any other applicable laws to be held; or
- the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed in a general meeting.

See the section headed "Statutory and General Information—Further Information about our Company and our Subsidiaries—Repurchase of our Own Securities" in Appendix IV for further details of the repurchase mandate.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the **[REDACTED]** [, assuming [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised, each Preferred Share will automatically convert into one class B ordinary share of US$0.000025 each and no Class A Shares are converted into Class B Shares], the following persons (other than a Director or executive officer of the Company) will have interests and/or short positions (as applicable) in the Shares or underlying shares of our Company that (i) would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, (ii) will be, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of substantial shareholder	Capacity/ Nature of interest	Number of Shares[1]	Approximate percentage of shareholding of each class of shares in our Company[1]
Class A Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	429,518,772	**[REDACTED]**%
Sunrise Vision Holdings Limited[2]	Interest in a controlled corporation	429,518,772	**[REDACTED]**%
Parkway Global Holdings Limited[2]	Interest in a controlled corporation	429,518,772	**[REDACTED]**%
ARK Trust (Hong Kong) Limited[2]	Trustee	429,518,772	**[REDACTED]**%
Lei Jun	Beneficiary of a trust[2]	429,518,772	**[REDACTED]**%
	Founder of a trust[2]	429,518,772	**[REDACTED]**%
Lin Bin[3]	Beneficial interest	240,000,000	**[REDACTED]**%
	Trustee	240,000,000	**[REDACTED]**%
Class B Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	222,388,475	**[REDACTED]**%
Smart Player Limited[2]	Beneficial interest	5,922,163	**[REDACTED]**%
Sunrise Vision Holdings Limited[2]	Interest in a controlled corporation	228,310,638	**[REDACTED]**%
Parkway Global Holdings Limited[2]	Interest in a controlled corporation	228,310,638	**[REDACTED]**%
ARK Trust (Hong Kong) Limited[2]	Trustee	228,310,638	**[REDACTED]**%
Lei Jun	Beneficiary of a trust[2]	228,310,638	**[REDACTED]**%
	Founder of a trust[2]	228,310,638	**[REDACTED]**%
Lei Jun	Interest of party to an agreement regarding interest in the Company[2]	[●]	**[REDACTED]**%

SUBSTANTIAL SHAREHOLDERS

Name of substantial shareholder	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding of each class of shares in our Company[1]
Lin Bin[3]	Beneficial interest	39,123,361	**[REDACTED]**%
	Trustee	30,000,000	**[REDACTED]**%
Qiming Venture Partners II, L.P.[4]	Beneficial interest	75,543,233	**[REDACTED]**%
Qiming Managing Directors Fund II, L.P.[4]	Beneficial interest	1,099,336	**[REDACTED]**%
Qiming Venture Partners II-C, L.P.[4]	Beneficial interest	6,614,981	**[REDACTED]**%
Morningside China TMT Fund I, L.P.[5]	Beneficial interest	288,806,470	**[REDACTED]**%
	Interest in a controlled corporation	19,476,408	**[REDACTED]**%
China TMT Holding I Limited[5]	Beneficial interest	19,476,408	**[REDACTED]**%
Morningside China TMT Fund II, L.P.[5]	Beneficial interest	48,499,770	**[REDACTED]**%
	Interest in a controlled corporation	3,270,707	**[REDACTED]**%
China TMT Holding II Limited[5]	Beneficial interest	3,270,707	**[REDACTED]**%
Apoletto Limited[6]	Beneficial interest	1,910,028	**[REDACTED]**%
	Interest in a controlled corporation	144,963,755	**[REDACTED]**%
Apoletto China I, L.P.[6]	Beneficial interest	36,638,268	**[REDACTED]**%
Apoletto China II, L.P.[6]	Beneficial interest	37,859,544	**[REDACTED]**%
Apoletto Investments II, L.P.[6]	Beneficial interest	2,420,815	**[REDACTED]**%
Apoletto China III, L.P.[6]	Beneficial interest	25,541,740	**[REDACTED]**%
Apoletto China IV, L.P.[6]	Beneficial interest	42,503,388	**[REDACTED]**%

(1) The table above assumes [the **[REDACTED]** is not exercised and] the options granted under the Pre-**[REDACTED]** ESOP are not exercised, each Preferred Share will automatically convert into one Class B Ordinary Share upon the **[REDACTED]** becoming unconditional and no Class A Shares are converted to Class B Shares. The number of Shares held are subject to adjustments as a result of the Share Subdivision.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. The entire interest in Parkway Global Holdings Limited is held by the ARK Trust (Hong Kong) Limited as trustee for a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lei Jun is deemed to be interested in the **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares (taking into account the Share Subdivision) held by Smart Mobile Holdings Limited under SFO. Lei Jun is deemed to be interested in the **[REDACTED]** Class B Shares (taking into account the Share Subdivision) held by Smart Player Limited under SFO. Pursuant to the Voting Proxy Agreements, Lei Jun is entitled to exercise the right to vote on a total of **[REDACTED]** Class B Shares (taking into account the Share Subdivision).

(3) Lin Bin, as trustee of the Bin Lin Trust, holds **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares (taking into account the Share Subdivision) on behalf of Lin Bin and his family members.

(4) The general partner of Qiming Venture Partners II, L.P. and Qiming Venture Partners II-C, L.P. is Qiming GP II, L.P., a Cayman Islands exempted limited partnership, whose general partner is Qiming Corporate GP II, Ltd., a Cayman Islands limited company which is also the general partner of Qiming Managing Directors Fund II, L.P.

(5) The entire interest of China TMT Holding I Limited is held by Morningside China TMT Fund I, L.P., which is deemed to be interested in **[REDACTED]** Class B Shares (taking into account the Share Subdivision) held by China TMT Holding I Limited. The entire interest of China TMT Holding II Limited is held by Morningside China TMT Fund II, L.P., which is deemed to be interested in **[REDACTED]** Class B Shares (taking into account the Share Subdivision) held by China TMT Holding II Limited.

(6) Apoletto China I, L.P., Apoletto China II, L.P., Apoletto China III, L.P., Apoletto China IV, L.P. and Apoletto Investments II, L.P. are funds managed by Apoletto Managers Limited, which is under common control with Apoletto Limited. Apoletto China I, L.P., Apoletto China II, L.P., Apoletto China III, L.P., and Apoletto China IV, L.P. are parties to the Voting Proxy Agreements.

Except as disclosed above, our Directors are not aware of any other person who will, immediately following the completion of the **[REDACTED]** (and assuming [the **[REDACTED]** is not exercised,] no Shares are issued pursuant to the exercise of options granted under the Pre-**[REDACTED]** ESOP, each Preferred Share will automatically convert into one Class B Share upon the **[REDACTED]** becoming unconditional and no Class A Shares are converted to Class B Shares), have any interest and/or short positions in the Shares or underlying shares of our Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company or any other member of our Group.

DIRECTORS AND SENIOR MANAGEMENT

The Board consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors. The following table provides certain information about the Directors:

Name	Age	Position(s)	Date of joining the Group	Date of appointment as a Director	Roles and responsibilities
CHEN, Dongsheng (陳東升)	[60]	Independent non-executive Director	April 2018	Date of this **[REDACTED]**(2)	Providing independent opinion and judgment to the Board. Chairman of the Remuneration Committee, member of the Audit Committee, member of the Corporate Governance Committee.
KOH, Tuck Lye (許達來)	[46]	Non-executive Director	August 2013	6 August 2013	Providing professional opinion and judgment to the Board. Member of the Audit Committee.
LEE, Ka Kit (李家傑)	[54]	Independent non-executive Director	April 2018	Date of this **[REDACTED]**(2)	Providing independent opinion and judgment to the Board. Chairman of the Nomination Committee, member of the Corporate Governance Committee.
LEI, Jun (雷軍)	[48]	Executive Director, Founder, Chairman and Chief Executive Officer	March 2010	3 May 2010	Overall responsible for the Company's strategy, company culture and key products. Overseeing the senior management team. Member of the Remuneration Committee.
LIN, Bin (林斌)	[50]	Executive Director, Co-founder and President	May 2010	3 May 2010	Responsible for the Company's smartphone business. Member of the Nomination Committee.
LIU, Qin(1) (劉芹)	[45]	Non-executive Director	May 2010	3 May 2010	Providing professional opinion and judgment to the Board.
WONG, Shun Tak (王舜德)	[57]	Independent non-executive Director	April 2018	Date of this **[REDACTED]**(2)	Providing independent opinion and judgment to the Board. Chairman of the Audit Committee, Chairman of the Corporate Governance Committee, member of the Nomination Committee, member of the Remuneration Committee.

Notes:

(1) Liu Qin was formerly known as Liu Ya (劉雅).

(2) The appointment of Chen Dongsheng (陳東升), Lee Ka Kit (李家傑) and Wong Shun Tak (王舜德), as independent non-executive Directors will take effect from the date of this **[REDACTED]**.

Save as disclosed below, (1) none of the Directors had held any other directorships in listed companies during the three years immediately prior to the Latest Practicable Date, (2) there is no other information in respect of the Directors to be disclosed pursuant to Rules 13.51(2)(a) to (v) of the Listing Rules, and (3) there is no other matter that needs to be brought to the attention of the Shareholders.

EXECUTIVE DIRECTORS

Lei Jun (雷軍), aged [48], is an executive Director, the Founder, the Chairman and the Chief Executive Officer. Lei Jun is overall responsible for the Company's strategy, company culture and key products. He oversees the senior management team. Lei Jun currently holds directorships in various subsidiaries, Consolidated Affiliated Entities and operating entities of the Group.

Lei Jun is a renowned angel investor in mainland China. Lei Jun joined Kingsoft Corporation Limited (HKEx Stock Code: 3888) in 1992 and has held various senior positions in Kingsoft, including as the chairman of the board since July 2011, non-executive director since August 2008 and the chief executive officer between 1998 and December 2007. From July 2011 to March 2018, Lei Jun was the chairman of Cheetah Mobile Inc. (NYSE ticker: CMCM). From July 2011 to August 2016, Lei Jun was the chairman of YY Inc. (Nasdaq ticker: YY).

Lei Jun received a bachelor's degree in computer science from Wuhan University (武漢大學) on July 1, 1991. He has been a member of the board of Wuhan University since November 2003. Lei Jun has also been serving as vice chairman of All-China Federation of Industry and Commerce (中華全國工商業聯合會) since November 2017 and vice president of China Association for Quality (中國質量協會) since December 2017.

Lin Bin (林斌), aged [50], is an executive Director, a Co-founder and the President. He is responsible for the Company's smartphone business. Lin Bin currently holds directorships in various major subsidiaries of the Group.

Before joining the Group in 2010, Lin Bin had served as an engineering director at Google Inc. between 2006 and 2010. [Before this, he had worked at Microsoft Corporation from 1995 to 2006, including as an engineering director at Microsoft (China) Limited from 2003 to 2006.] Prior to this, Lin Bin worked as Network Engineer at ADP Inc. since May 1993.

Lin Bin has held numerous visiting and adjunct professorships, including visiting professor at Zhejiang University in 2002, visiting professor at Tongji University in 2002, adjunct professor at Nankai University from 2002 to 2005 and adjunct professor at Sun Yat-sen (中山大學) University from 2005 to 2008. He currently sits on the Board of Advisors of the Tufts University School of Engineering.

Lin Bin received a bachelor's degree of science in radio electronics from Sun Yat-sen University (中山大學) in July 1990, and a Master of Science from Drexel University in June 1992.

Non-executive Directors

Koh Tuck Lye (許達來), aged [46], is a non-executive Director and currently holds directorships in various subsidiaries of the Company. Koh Tuck Lye has served as a co-founder and the chief executive officer of Shunwei Capital since April 2011. From June 2009 to March 2011, he served as managing director in investment at Beijing C.V. Starr Investment Advisors Limited (北京世威史帶投資顧問有限公司). Prior to this, Koh Tuck Lye served as vice president responsible for private investments in greater China at GIC Special Investments (Beijing) Company Ltd. Koh Tuck Lye also served as a director at Kingsoft from August 2006 to May 2008.

Koh Tuck Lye received a bachelor's degree in mechanical engineering from National University of Singapore on July 23, 1996, and a master of science in industrial engineering (engineering management) from Stanford University on September 23, 1999. Koh Tuck Lye was also accredited as a chartered financial analyst by Association for Investment Management and Research (now known as the CFA Institute) on October 11, 2000.

Liu Qin (劉芹), aged [45], is a non-executive Director and currently holds directorships in various major subsidiaries of the Company. Liu Qin co-founded and has served as managing director of Morningside Venture Capital Limited ("**MSVC**") since June 2007. The funds under MSVC's management had been the earliest investors of the Group. Before co-founding MSVC, Liu Qin served various roles including as a business development director for investment at Morningside IT Management Services (Shanghai) Co. Ltd. (晨興信息科技諮詢(上海)有限公司) from July 2000 to November 2008. Liu Qin has been a director of YY Inc. (Nasdaq ticker: YY) since June 2008, and a director of Xunlei Limited (Nasdaq ticker: XNET) since September 2005.

Liu Qin received a bachelor's degree in industrial electrical automation from University of Science and Technology Beijing (北京科技大學) in July 1993, and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) on April 22, 2000.

Independent Non-executive Directors

Chen Dongsheng (陳東升), aged [60], has been appointed as an independent non-executive Director with effect from the date of this **[REDACTED]**. Chen Dongsheng has served as the chairman of Taikang Insurance Group Inc. (泰康保險集團股份有限公司) (formerly known as Taiking Life Insurance Co., Ltd (泰康人壽保險股份有限公司)) ("**Taikang**") since July 1996. He is currently the chief executive officer of Taikang and holds various directorships within the Taikang group. Prior to this, Chen Dongsheng served as the chairman and the general manager of China Guardian Auctions Co., Ltd (中國嘉德國際拍賣有限公司) from May 1993. Prior to this, Chen Dongsheng worked as the deputy editor of the *Management World (monthly)*, published by the Development Research Center of the State Council of China.

Chen Dongsheng received a bachelor's degree in political economics on July 30, 1983, and a PhD in political economics on June 30, 1996, both from Wuhan University (武漢大學).

Lee Ka Kit (李家傑), *GBS*, *JP, DBA (Hon),* aged [54], has been appointed as an independent non-executive Director with effect from the date of this **[REDACTED]**. Lee Ka Kit has served as an executive director of Henderson Land Development Company Limited (HKEx Stock Code: 0012)

since 1985 and as its vice chairman since 1993, primarily responsible for the development of the People's Republic of China business of Henderson Land Group. He has also served as an executive director and the vice chairman of Henderson Investment Limited (HKEx Stock Code: 0097) since 1993, as well as the vice chairman of Henderson Development Limited. Lee Ka Kit currently holds directorships in The Bank of East Asia, Limited (HKEx Stock Code: 0023), as a non-executive director since May 2013 and The Hong Kong and China Gas Company Limited (HKEx Stock Code: 0003), as a non-executive director since March 1990.

Lee Ka Kit has been appointed as a Justice of the Peace in 2009 and was awarded the Gold Bauhinia Star in 2015 by the Government of the Hong Kong Special Administrative Region.

Lee Ka Kit was awarded an Honorary University Fellowship by The University of Hong Kong in September 2009 and an Honorary Degree of Doctor of Business Administration by Edinburgh Napier University on July 3, 2014.

Wong Shun Tak (王舜德), aged [57], has been appointed as an independent non-executive Director with effect from the date of this **[REDACTED]**. Prior to joining our Group, Wong Shun Tak has served as the chief financial officer of Rokid Corporation Ltd since July 2014 and the independent non-executive director, chairman of the nomination committee, chairman of the remuneration committee and member of the audit committee of Kingsoft since July 2014. Wong Shun Tak had also served at Kingsoft as executive director and chief financial officer from December 2011 to July 2012, and as independent non-executive director, chairman of the audit committee and member of the remuneration committee from April 2007 to September 2011. Between August 2007 and September 2011, Wong Shun Tak served as vice president of finance and corporate controller of Alibaba Group Holding Ltd (NYSE ticker: BABA). Prior to this, Wong Shun Tak served as the chief financial officer of Goodbaby Children Products Group from August 2003 to August 2007, and as the vice president of finance (product division) in IDT International Limited (HKEx Stock Code: 167) from September 2001 to July 2003. Wong Shun Tak has extensive experience in financial control, operations, strategic planning and implementation, private equity investments and exit strategies.

Wong Shun Tak received a Bachelor of Social Science from University of East Asia, Macau on September 13, 1986, a master's degree in science, majoring in finance, from the University of Lancaster on December 3, 1987 and a master's degree in accountancy from Charles Stuart University in Australia on April 15, 1994. Wong Shun Tak was accredited a Certified Public Accountant by The Hong Kong Institute of Certified Public Accountants on January 1, 1996 and has been a fellow of The Hong Kong Institute of Certified Public Accountants since April 21, 2005. Wong Shun Tak was also accredited as a Certified Public Accountant by CPA Australia on April 20, 1994, and was advanced to the status of a Fellow of CPA Australia on September 22, 2005.

SENIOR MANAGEMENT

The following table provides information about members of the senior management of the Group:

Name	Age	Position(s)	Date of joining the Group	Roles and responsibilities
CHEW, Shou Zi (周受資)	[35]	Senior Vice President, Chief Financial Officer	July 2015	Responsible for the Company's finance, investments, and human resources functions.
HONG, Feng (洪鋒)	[41]	Co-founder, Senior Vice President (Internet Services)	December 2010	Responsible for the MIUI platform, as well as the Company's mobile internet and online finance businesses.
JAIN, Manu Kumar	[37]	Vice President, Managing Director of Xiaomi India	May 2014	Responsible for the Company's business in India.
LEI, Jun (雷軍)	[48]	Founder, Chairman and Chief Executive Officer	March 2010	Overall responsible for the Company's strategy, company culture and key products. He oversees the senior management team.
LI, Wanqiang (黎萬強)	[41]	Co-founder, Senior Vice President, Chief Brand Officer	March 2010	Responsible for the Company's branding, marketing and communication strategy.
LIN, Bin (林斌)	[50]	Co-founder, President	May 2010	Responsible for the Company's smartphone business.
LIU, De (劉德)	[45]	Co-founder, Senior Vice President (Ecosystem)	September 2010	Responsible for the Company's IoT and lifestyle products business.
QI, Yan (祁燕)	[68]	Senior Vice President (Internal Operations and Public Affairs)	January 2013	Responsible for the Company's administrative and regulatory affairs.
SHANG, Jin (尚進)	[41]	Vice President (Interactive Entertainment)	September 2014	Responsible for the Company's gaming and livestreaming businesses.
WANG, Chuan (王川)	[48]	Co-founder, Senior Vice President (TV Business)	November 2012	Responsible for the Company's smart TV business.
WANG, Lingming (汪淩鳴)	[43]	Vice President (Sales and Services)	March 2017	Responsible for developing and executing the Company's mainland China sales strategy, as well as leading customer service, logistics and after-sales functions
WANG, Xiang (王翔)	[56]	Senior Vice President (Global Business)	July 2015	Responsible for the Company's global business and operations in all regions outside mainland China.

Name	Age	Position(s)	Date of joining the Group	Roles and responsibilities
ZHANG, Feng (張峰)	[48]	Vice President (Supply Chain)	September 2016	Responsible for managing all crucial aspects of the supply chain processes for the Company's smartphone business.

Save as disclosed below, none of the senior managers had held any other directorships in listed companies during the three years immediately prior to the Latest Practicable Date, there is no other information in respect of the senior managers to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules, and there is no other matter that needs to be brought to the attention of the Shareholders.

Chew Shou Zi (周受資), aged [35], is a Senior Vice President and the Chief Financial Officer of the Company and oversees the finance, investments and human resources functions of the Group. Before joining the Group in July 2015, Chew Shou Zi was a partner at DST Investment Management Ltd. and worked there from August 2011 to June 2015. Prior to DST Investment Management Ltd., Chew Shou Zi worked at Goldman Sachs International from July 2006 to July 2008.

Chew Shou Zi received a Bachelor of Science in Economics from University College London on August 1, 2006 and a Master of Business Administration from Harvard Business School on March 8, 2011.

Hong Feng (洪鋒), aged [41], is a Co-founder and a Senior Vice President (Internet Services). He is responsible for the MIUI platform, as well as the Company's mobile internet and online finance businesses. Prior to joining the Group in December 2010, Hong Feng held various positions at Google Inc. from May 2005 to December 2010, including as senior product manager. From May 2001 to May 2005 Hong Feng worked at Siebel Systems (which was subsequently acquired by Oracle America, Inc.) as lead software engineer.

Hong Feng received a bachelor's degree in computer science and engineering from Shanghai Jiao Tong University (上海交通大學) in July 1999, and a master's degree in Computer Science from Purdue University on May 5, 2001.

Jain Manu Kumar, aged [37], is a Vice President and the Managing Director of Xiaomi India. He is responsible for the Company's business in India. Jain Manu Kumar joined the Group in October 2014 and heads Xiaomi's business in India. Prior to January 2014, Jain Manu Kumar worked at Jabong.com, after serving various roles in McKinsey & Company between June 2007 and December 2011, including as engagement manager.

Jain Manu Kumar received a bachelor's degree in mechanical engineering from Indian Institute of Technology Delhi on August 9, 2003, and a Post-Graduate Diploma in Management from Indian Institute of Management Calcutta in 2007.

Lei Jun (雷軍), aged [48], is the Founder, the Chief Executive Officer, the Chairman and an executive Director. For further details, please see the paragraphs headed "—Executive Directors" in this section.

Li Wanqiang (黎萬強), aged [41], is a Co-founder, a Senior Vice President and the Chief Brand Officer. He is responsible for the Company's branding, marketing and communication strategy. Before joining the Group in March 2010, Li Wanqiang held several positions in Kingsoft between June 2000 and January 2010, including as the general manager.

Li Wanqiang received a bachelor's degree in industrial design from Xi'an Polytechnic University (西安工程大學) (formerly known as the Northwest Textile Institute (西北紡織工學院)), on July 3, 2000.

Lin Bin (林斌), aged [50], is a Co-founder, the President and an executive Director. For further details, please see the paragraphs headed "—Executive Directors" in this section.

Liu De (劉德), aged [45], is a Co-founder and the Senior Vice President (Ecosystem), responsible for the Company's IoT and lifestyle products business. In October 2002 Liu De co-founded Beijing Xinfengrui Industrial Design Co., Ltd. (北京新鋒銳工業設計公司) and had served as its executive director.

Liu De received a bachelor's degree in industrial design on July 1, 1996 and a master's degree in mechanical design and theory on March 27, 2001, both from the Beijing Institute of Technology (北京理工大學). Liu De was awarded a master's degree in industrial design from Art Center College of Design, Pasadena, California, US, on April 24, 2010.

Qi Yan (祁燕), aged [68], is the Senior Vice President (Internal Operations and Public Affairs), responsible for the Company's administrative and regulatory affairs. Before joining the Group in January 2013, Qi Yan served as the chief executive officer of Aigo Electronic Technology Co., Ltd. (愛國者電子科技有限公司) from September 2010 to December 2012, and the chief executive officer of Aigo Digital Technology Co., Ltd. (愛國者數碼科技有限公司) from September 2004 to September 2010. Qi Yan had served as the head of organizational section of the Beijing Municipal Committee of China National Democratic Construction Association (中國民主建國會) ("**CNDCA**") since May 1993, and was further appointed as the deputy secretary-general in December 1993, before she retired in January 1999. Between December 1993 and January 1997, Qi Yan also served as the principal of the Beijing Jianhua Experimental School (北京建華實驗學校).

Qi Yan has served as an independent non-executive director of HC INTERNATIONAL, INC. (慧聰網有限公司) (HKEx Stock Code: 2280) since November 2017. She has also served as a director of Beijing Power Future Technology Co., Ltd. (北京動力未來科技股份有限公司) (National Equities Exchange and Quotations Stock Code: 839032) since November 2015.

Qi Yan received a master's degree in applied sociology from the Graduate School of Academy of Social Sciences (中國社會科學院研究生院) on June 30, 1998.

Shang Jin (尚進), aged [41], is the Vice President (Interactive Entertainment), responsible for the Company's gaming and livestreaming businesses. Before joining the Group in September 2014, Shang Jin co-founded and served as the chief executive officer of Beijing Kylin Culture Co., Ltd. (北京麒麟網文化股份有限公司) (formerly known as Beijing Kylin Information Technology Co, Ltd. (北京麒麟網信息科技有限公司)) between July 2007 and February 2014. Before this, Shang Jin served as vice general manager of Beijing AmazGame Age Internet Technology Co., Ltd. (北京暢游天下網絡技術有限公司) (subsequently listed as part of the group of Changyou.com Limited, Nasdaq ticker: CYOU) from February 2005. From November 1999 to February 2005, Shang Jin worked at Kingsoft, including as project manager, technology officer and division deputy manager.

Shang Jin has served as a director of Ourpalm Co., Ltd (北京掌趣科技股份有限公司) (Shenzhen Stock Exchange Stock Code: 300315) since February 2018.

In 2010, Shang Jin was awarded Zhongguancun's leading talent and in 2011 was named one of the top 10 most influential leaders in the gaming industry of the year. Shang Jin received a bachelor's degree in physics from Dalian University of Technology (大連理工大學), in July 1998.

Wang Chuan (王川), aged [48], is a Co-founder and the Senior Vice President (TV Business). He is responsible for the Company's smart TV business. Wang Chuan co-founded Beijing Duokan in February 2010, where he currently serves as the chief executive officer. Wang Chuan also serves as the chairman of Beijing Leishitiandi Electron Technology Co., Ltd. (北京雷石天地電子技術有限公司), since he joined in June 2006.

Wang Chuan has served as a director of Xunlei Limited (Nasdaq ticker: XNET) since March 2014 and its chairman of the board since December 2017. He has also served as a director of IQIYI, INC. (Nasdaq ticker: IQ) since November 2014, and as an independent non-executive director of Zhejiang Huace Film and TV Co., Ltd. (浙江華策影視股份有限公司) (Shenzhen Stock Exchange Stock Code: 300133).

Wang Chuan received a bachelor's degree in computer science and engineering from Beijing University of Technology (北京工業大學) on July 10, 1993.

Wang Lingming (汪淩鳴), aged [43], is the Vice President (Sales and Services), responsible for developing and executing the Company's mainland China sales strategy, as well as leading customer service, logistics and after-sales functions.

Prior to joining the Group in March 2017, Wang Lingming served as vice president at Telephone World Communication Group Co., Ltd. (話機世界通信集團股份有限公司). From 2009 to October 2013, Wang Lingming served as the vice president of Beijing Benywave Technology Co., Ltd (北京百納威爾科技有限公司) ("**Benywave**"). Benywave wholly owns Beijing Tianyu Langtong Communication Equipment Co., Ltd. (北京天宇朗通通信設備股份有限公司).

Wang Lingming received a bachelor's degree in international trade and commerce from Zhejiang Gongshang University (浙江工商大學), on July 1, 1997. He was appointed as a mentor of undergraduate of Zhejiang Gongshang University in April 2017, and an entrepreneurship mentor of Institute of Entrepreneurship of Zhejiang Gongshang University (浙江工商大學創業學院) in April 2017.

Wang Xiang (王翔), aged [56], is the Senior Vice President (Global Business), responsible for the Company's global business and operations in all regions outside mainland China. Wang Xiang has over 20 years of experience in the semiconductor and communications industry. He previously served various roles at Qualcomm Wireless Semi Conductor Technologies Limited (a group member of QUALCOMM, Inc. (Nasdaq ticker: QCOM) ("**Qualcomm**")) between July 2002 and June 2015, including as the global senior vice president and the greater China president, overseeing the business of Qualcomm in the greater China region. Between April 1992 and November 2000, Wang Xiang served as manager at Motorola China Electronics Ltd. (摩托羅拉(中國)電子有限公司) (now known as Motorola Systems (China) Co., Ltd. (摩托羅拉系統(中國)有限公司)).

Wang Xiang received a bachelor's degree in radio electronics with a major in semiconductor physics and devices from Beijing University of Technology (北京工業大學) on July 14, 1984.

Zhang Feng (張峰), aged [48], is the Vice President (Supply Chain), responsible for managing all crucial aspects of the supply chain processes for the Company's smartphone business. In October 2013, Zhang Feng joined and served as the general manager at Jiangsu Zimi Electronic Technology Co., Ltd. (江蘇紫米電子技術有限公司), which developed power banks for the Company and became one of the Group's ecosystem partners. He held various positions in the Inventec group between September 1993 and February 2012, including as the director of research and development and the general manager of the group's Nanjing branch.

Zhang Feng received a bachelor's degree in radio electronics from Shanghai Technology and Science University (上海科學技術大學) (now known as Shanghai University (上海大學)) in July 1991.

JOINT COMPANY SECRETARIES

Steve Lin (林冠男), has been appointed as our joint company secretary with effect from April 30, 2018. Steve Lin joined our Group in February 2018 as the Director of Corporate Finance. Steve Lin has over 13 years of experience in business consulting and investment banking. Prior to joining the Group, he worked at McKinsey&Company from July 2005 to August 2008, Macquarie Capital Securities Limited from September 2008 to August 2010 and Deutsche Bank Group from September 2010 to February 2018.

Steve Lin received his master's degree in electrical and computer engineering from the University of California, Santa Barbara in March 2005 and bachelor's degree in engineering from the College of Electrical Engineering and Computer Science of National Taiwan University in June 2003.

So Ka Man (蘇嘉敏) , has been appointed as our joint company secretary with effect from April 30, 2018. So Ka Man is a director of corporate services division of Tricor Services Limited. So Ka Man has over 15 years of experience in the corporate secretarial field and has been providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. From August 2000 to December 2003, So Ka Man worked at Tengis Limited (currently known as Tricor Tengis Limited), and joined Tricor Services Limited in January 2004. She is currently the company secretary of other companies listed on the Stock Exchange.

So Ka Man received a Bachelor of Arts in Accountancy from Hong Kong Polytechnic University in November 1996. She is a Chartered Secretary and an Associate of both of The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a holder of the Practitioner's Endorsement from HKICS.

DIRECTORS' REMUNERATION

For the details of the service contracts and appointment letters that we have entered into with the Directors, see the section headed "Statutory and General Information—Further Information about Our Directors—Particulars of Directors' service contracts and appointment letters" in Appendix IV.

The aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind, contributions to pension plans and discretionary bonuses) for the Directors for the years ended December 31, 2015, 2016 and 2017 was nil, nil and nil, respectively.

For the financial years ended December 31, 2015, 2016 and 2017, the aggregate amount of remuneration (including basic salaries, housing allowances, other allowances and benefits in kind,

contributions to pension plans and discretionary bonuses) for the five highest paid individuals who are neither a Director nor chief executive of the Group were RMB251.34 million, RMB281.63 million and RMB196.07 million, respectively.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to the Directors by the Group.

During the Track Record Period, no remuneration was paid to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group. No compensation was paid to, or receivable by, the Directors or past Directors during the Track Record Period for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group. None of the Directors waived any emoluments during the Track Record Period.

CORPORATE GOVERNANCE

Audit Committee

We have established an audit committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The audit committee comprises one non-executive Director and two independent non-executive Directors, namely Chen Dongsheng, Koh Tuck Lye and Wong Shun Tak. Wong Shun Tak, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

Remuneration Committee

We have established a remuneration committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The remuneration committee comprises Chen Dongsheng, Lei Jun and Wong Shun Tak. Chen Dongsheng is the chairman of the committee.

Nomination Committee

We have established a nomination committee in compliance with the Code on Corporate Governance set out in Appendix 14 to the Listing Rules. The primary duties of the nomination committee are to make recommendations to the Board regarding the appointment of Directors and Board succession. The nomination committee comprises Wong Shun Tak, Lee Ka Kit and Lin Bin. Lee Ka Kit is the chairman of the committee.

Corporate Governance Committee

We have established a corporate governance committee in compliance with Chapter 8A of the Listing Rules. The primary duties of the corporate governance committee are to ensure that the Company is operated and managed for the benefit of all shareholders and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structures of

the Company. The corporate governance committee comprises of three independent non-executive Directors, namely Chen Dongsheng, Lee Ka Kit and Wong Shun Tak. Wong Shun Tak is the chairman of the committee.

Corporate Governance Code

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies **[REDACTED]** Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Lei Jun currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole. For further information relating to the Company's corporate governance measures, please see the section headed "Relationship with the Controlling Shareholders—Corporate Governance Measures."

We aim to implement a high standard of corporate governance, which is crucial to safeguard the interests of the Shareholders. To accomplish this, we expect to comply with the Corporate Governance Code after the **[REDACTED]**.

COMPLIANCE ADVISOR

We have appointed Guotai Junan Capital Limited as the compliance advisor (the "**Compliance Advisor**") pursuant to Rule 8A.33 of the Listing Rules. The Compliance Advisor will provide us with guidance and advice as to compliance with the Listing Rules and applicable Hong Kong laws. Pursuant to Rules 3A.23 and 8A.34 of the Listing Rules, the Compliance Advisor will advise the Company in certain circumstances and/or matters including:

(a) before the publication of any regulatory announcement, circular, or financial report;

(b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(c) where we propose to use the **[REDACTED]** of the **[REDACTED]** in a manner different from that detailed in this **[REDACTED]** or where the business activities, development or results of the Group deviate from any forecast, estimate or other information in this **[REDACTED]**;

(d) where the Stock Exchange makes an inquiry to the Company regarding unusual movements in the price or trading volume of its listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules;

(e) the WVR structure;

(f) transactions in which any beneficiary of weighted voting rights in the Company has an interest; and

(g) where there is a potential conflict of interest between the Company, its subsidiary and/or Shareholders (considered as a group) on one hand and any beneficiary of weighted voting rights in the Company on the other.

The term of appointment of the Compliance Advisor shall commence on the **[REDACTED]**. Pursuant to Rule 8A.33 of the Listing Rules, the Company is required to engage a compliance advisor on a permanent basis.

DISCLOSURE UNDER RULE 8.10 OF THE LIST RULES

Lei Jun and Koh Tuck Lye are founding partners of Shunwei Capital ("**Shunwei**"), which operates investment funds specializing in incubation, start-ups, early to mid-stage and growth capital investments in internet and technology industries. While Shunwei may acquire non-controlling interests in certain business that operate in technology and internet sectors similar to those in which our Group operates, Shunwei is a pure capital investment company, and generally has no management or shareholding control over any of its investee companies. We therefore do not believe that Shunwei competes in any material way with our Group.

Each of the Directors confirms that as of the Latest Practicable Date, save as disclosed in this **[REDACTED]**, he or she did not have any interest in a business which materially competes or is likely to compete, directly or indirectly, with the business, and requires disclosure under Rule 8.10 of the Listing Rules.

FUTURE PLANS

See the section headed "Business—Our Strategies" for a detailed description of our future plans.

USE OF [REDACTED]

We estimate that we will receive **[REDACTED]** from the **[REDACTED]** of approximately HK$**[REDACTED]** after deducting the **[REDACTED]** and other estimated expenses paid and payable by us in relation to the **[REDACTED]** and taking into account any additional discretionary **[REDACTED]**, assuming an **[REDACTED]** of HK$**[REDACTED]** per Share, being the mid-point of the indicative **[REDACTED]** range of HK$**[REDACTED]** to HK$**[REDACTED]** per Share. We intend to use the **[REDACTED]** we will receive from this **[REDACTED]** for the following purposes:

- approximately 30% (approximately HK$**[REDACTED]**) for research and development as well as other efforts to develop our core in-house products, including our smartphones, smart TVs, laptops, AI speakers and smart routers;
- approximately 30% (approximately HK$**[REDACTED]**) for investments to expand and strengthen our ecosystem primarily in the fields of IoT and lifestyle products and mobile internet services, including AI;
- approximately 30% (approximately HK$**[REDACTED]**) for our global expansion; and
- approximately 10% (approximately HK$**[REDACTED]**) for working capital and general corporate purposes.

In the event that the **[REDACTED]** is set at the high point or the low point of the indicative **[REDACTED]** range, the **[REDACTED]** of the **[REDACTED]** will increase or decrease by approximately HK$**[REDACTED]**, respectively. Under such circumstances, we will increase or decrease the allocation of the **[REDACTED]** to the above purposes on a pro-rata basis.

[We will not receive **[REDACTED]** if the **[REDACTED]** is exercised. If the **[REDACTED]** is exercised in full, the **[REDACTED]** will receive the **[REDACTED]** for up to **[REDACTED]** additional **[REDACTED]** to be sold and transferred upon the exercise of the **[REDACTED]**.]

To the extent that the **[REDACTED]** of the **[REDACTED]** are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we may hold such funds in short-term deposits so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

Since we are an offshore holding company, we will need to make capital contributions and loans to our subsidiaries in mainland China such that the **[REDACTED]** of this **[REDACTED]** can be used in the manner described above. Such capital contributions and loans are subject to a number of limitations and approval processes under the laws of mainland China and regulations. There are no costs associated with registering loans or capital contributions with relevant authorities of mainland China, other than nominal processing charges. Under the laws of mainland China and regulations, the governmental authorities of mainland China are required to process such approvals or registrations or deny our **[REDACTED]** within a prescribed period, which are usually less than 90 days. The actual time

taken, however, may be longer due to administrative delay. We cannot assure you that we can obtain the approvals from the relevant governmental authorities, or complete the registration and filing procedures required to use our **[REDACTED]** as described above, in each case on a timely basis, or at all. This is because regulation of loans and direct investment of mainland China by offshore holding companies to entities in mainland China may delay or prevent us from using the **[REDACTED]** of this **[REDACTED]** to make loans or additional capital contributions to our operating subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

[REDACTED]

[REDACTED]

[REDACTED]

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The following is the text of a report set out on pages I-1 to I-2 received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this **[REDACTED]**. *It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Hong Kong Standard on Investment Circular Reporting Engagements 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.*

[Letterhead of PricewaterhouseCoopers]

[DRAFT]

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF XIAOMI CORPORATION AND CLSA CAPITAL MARKETS LIMITED, GOLDMAN SACHS (ASIA) L.L.C. AND MORGAN STANLEY ASIA LIMITED

Introduction

We report on the historical financial information of Xiaomi Corporation (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-98, which comprises the consolidated balance sheets as of December 31, 2015, 2016 and 2017, the balance sheets of the Company as of December 31, 2015, 2016 and 2017 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-98 forms an integral part of this report, which has been prepared for inclusion in the **[REDACTED]** of the Company dated [date] (the "**[REDACTED]**") in connection with the **[REDACTED]** of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' Responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical

Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out respective in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as of December 31, 2015, 2016 and 2017 and the consolidated financial position of the Group as of December 31, 2015, 2016 and 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 28 to the Historical Financial Information, which states that no dividends have been paid by Xiaomi Corporation in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

[PricewaterhouseCoopers]

Certified Public Accountants
Hong Kong, [date]

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED INCOME STATEMENTS

	Note	Year ended December 31, 2015	2016	2017
		RMB'000	RMB'000	RMB'000
Revenue	6	66,811,258	68,434,161	114,624,742
Cost of sales	9	(64,111,325)	(61,184,806)	(99,470,537)
Gross profit		2,699,933	7,249,355	15,154,205
Selling and marketing expenses	9	(1,912,765)	(3,022,313)	(5,231,540)
Administrative expenses	9	(766,252)	(926,833)	(1,216,110)
Research and development expenses	9	(1,511,815)	(2,104,226)	(3,151,401)
Fair value changes on investments measured at fair value through profit or loss	20(v)	2,813,353	2,727,283	6,371,098
Share of losses of investments accounted for using the equity method	12(b)	(92,781)	(150,445)	(231,496)
Other income	7	522,436	540,493	448,671
Other (losses)/gains, net	8	(379,439)	(528,250)	72,040
Operating profit		1,372,670	3,785,064	12,215,467
Finance (expense)/income, net	11	(85,867)	(86,246)	26,784
Fair value changes of convertible redeemable preferred shares	35	(8,759,314)	(2,523,309)	(54,071,603)
(Loss)/profit before income tax		(7,472,511)	1,175,509	(41,829,352)
Income tax expenses	13	(154,519)	(683,903)	(2,059,763)
(Loss)/profit for the year		(7,627,030)	491,606	(43,889,115)
(Loss)/profit attributable to:				
Owners of the Company		(7,581,295)	553,250	(43,826,016)
Non-controlling interests		(45,735)	(61,644)	(63,099)
		(7,627,030)	491,606	(43,889,115)
(Loss)/earnings per share (expressed in RMB per share):	14			
Basic		(7.834)	0.571	(44.912)
Diluted		(7.834)	0.570	(44.912)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2015	2016	2017
		RMB'000	RMB'000	RMB'000
(Loss)/profit for the year		(7,627,030)	491,606	(43,889,115)
Other comprehensive (loss)/ income:				
Items that may be reclassified subsequently to profit or loss				
Share of other comprehensive income/(loss) of investments accounted for using the equity method	12(b)	59,930	32,663	(22,783)
Transfer to profit or loss from losing significant influence in an associate		—	(1,991)	—
Currency translation differences		(113,903)	(60,298)	(137,124)
Item that will not be reclassified subsequently to profit or loss				
Currency translation differences		(5,455,124)	(6,769,135)	8,054,273
Other comprehensive (loss)/income for the year, net of tax		(5,509,097)	(6,798,761)	7,894,366
Total comprehensive loss for the year		(13,136,127)	(6,307,155)	(35,994,749)
Attributable to:				
Owners of the Company		(13,098,817)	(6,254,475)	(35,922,124)
Non-controlling interests		(37,310)	(52,680)	(72,625)
		(13,136,127)	(6,307,155)	(35,994,749)

CONSOLIDATED BALANCE SHEETS

	Note	As of December 31, 2015	2016	2017
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Land use rights	15	—	3,494,041	3,416,359
Property and equipment	16	290,183	848,377	1,730,872
Intangible assets	17	553,759	1,120,133	2,274,352
Investments accounted for using the equity method	12(b)	1,729,269	1,852,563	1,710,819
Long-term investments measured at fair value through profit or loss	20	8,390,794	12,349,198	18,856,961
Deferred income tax assets	34	394,144	446,303	591,576
Prepayments to land use rights		2,600,552	—	—
Other non-current assets		225,309	18,668	150,361
		14,184,010	20,129,283	28,731,300
Current assets				
Inventories	24	8,643,183	8,378,342	16,342,928
Trade receivables	22	1,470,155	2,089,518	5,469,507
Loan receivables	21	100,980	1,598,063	8,144,493
Prepayments and other receivables	23	3,118,768	4,748,418	11,393,910
Short-term investments measured at amortized cost	20	1,629,000	80,000	800,000
Short-term investments measured at fair value through profit or loss	20	789,943	3,437,537	4,488,076
Short-term bank deposits	25(c)	739,360	440,156	225,146
Restricted cash	25(b)	67,060	633,964	2,711,119
Cash and cash equivalents	25(a)	8,394,078	9,230,320	11,563,282
		24,952,527	30,636,318	61,138,461
Total assets		39,136,537	50,765,601	89,869,761
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	26	150	150	150
Reserves		(86,714,628)	(92,191,820)	(127,272,511)
		(86,714,478)	(92,191,670)	(127,272,361)
Non-controlling interests		76,170	133,795	61,670
Total equity		(86,638,308)	(92,057,875)	(127,210,691)

CONSOLIDATED BALANCE SHEETS—continued

	Note	As of December 31, 2015	2016	2017
		RMB'000	RMB'000	RMB'000
Liabilities				
Non-current liabilities				
Borrowings	33	3,246,800	390,000	7,251,312
Deferred income tax liabilities	34	103,564	458,289	1,018,651
Warranty provision		11,963	101,970	191,404
Convertible redeemable preferred shares	35	105,932,869	115,802,177	161,451,203
Other non-current liabilities		15,369	7,778	35,211
		109,310,565	116,760,214	169,947,781
Current liabilities				
Trade payables	30	14,225,540	17,577,702	34,003,331
Other payables and accruals	31	1,275,068	1,876,267	4,223,979
Advance from customers	32	530,675	1,836,174	3,390,650
Borrowings	33	—	3,768,500	3,550,801
Income tax liabilities		101,345	257,558	421,113
Warranty provision		331,652	747,061	1,542,797
		16,464,280	26,063,262	47,132,671
Total liabilities		125,774,845	142,823,476	217,080,452
Total equity and liabilities		39,136,537	50,765,601	89,869,761

COMPANY BALANCE SHEETS

	Note	As of December 31, 2015	2016	2017
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Property and equipment		33	35	33
Investment in subsidiaries	18	2,790,713	4,846,192	5,815,295
Investments accounted for using the equity method		228,935	101,788	—
Other assets		73	77	73
		3,019,754	4,948,092	5,815,401
Current assets				
Prepayments and other receivables	23	8,561,847	7,981,897	7,550,122
Cash and cash equivalents	25(a)	15,991	2,227	2,131
		8,577,838	7,984,124	7,552,253
Total assets		11,597,592	12,932,216	13,367,654
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital		150	150	150
Reserves		(95,381,241)	(103,988,275)	(149,322,405)
Total equity		(95,381,091)	(103,988,125)	(149,322,255)
Liabilities				
Non-current liability				
Convertible redeemable preferred shares	35	105,932,869	115,802,177	161,451,203
		105,932,869	115,802,177	161,451,203
Current liability				
Other payables and accruals	31	1,045,814	1,118,164	1,238,706
		1,045,814	1,118,164	1,238,706
Total liabilities		106,978,683	116,920,341	162,689,909
Total equity and liabilities		11,597,592	12,932,216	13,367,654

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Accumulated losses	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2015		148	656,716	2,519,240	(77,506,929)	(74,330,825)	113,426	(74,217,399)
Comprehensive loss								
Loss for the year		—	—	—	(7,581,295)	(7,581,295)	(45,735)	(7,627,030)
Other comprehensive loss								
Items that may be reclassified subsequently to profit or loss								
Share of other comprehensive income of investments accounted for using the equity method	12(b)	—	—	59,930	—	59,930	—	59,930
Currency translation differences	27	—	—	(122,328)	—	(122,328)	8,425	(113,903)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences	27	—	—	(5,455,124)	—	(5,455,124)	—	(5,455,124)
Total comprehensive loss		—	—	(5,517,522)	(7,581,295)	(13,098,817)	(37,310)	(13,136,127)
Transactions with owners in their capacity as owners								
Issuance of ordinary shares	26	2	15,474	(11,907)	—	3,569	—	3,569
Conversion of Preferred Shares to ordinary shares	26	—	65,419	—	—	65,419	—	65,419
Share of other reserves of investments accounted for using the equity method	12(b)	—	—	24,532	—	24,532	—	24,532
Employees share-based compensation scheme: —value of employee services	29	—	—	621,644	—	621,644	—	621,644
Appropriation to statutory reserves	27	—	—	60,067	(60,067)	—	—	—
Others		—	—	—	—	—	54	54
Total transactions with owners in their capacity as owners		2	80,893	694,336	(60,067)	715,164	54	715,218
Balance at December 31, 2015		150	737,609	(2,303,946)	(85,148,291)	(86,714,478)	76,170	(86,638,308)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—continued

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Accumulated losses	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2016		150	737,609	(2,303,946)	(85,148,291)	(86,714,478)	76,170	(86,638,308)
Comprehensive income								
Profit for the year		—	—	—	553,250	553,250	(61,644)	491,606
Other comprehensive loss								
Items that may be reclassified subsequently to profit or loss								
Share of other comprehensive income of investments accounted for using the equity method	12(b)	—	—	32,663	—	32,663	—	32,663
Transfer to profit or loss from losing significant influence in an associate		—	—	(1,991)	—	(1,991)	—	(1,991)
Currency translation differences	27	—	—	(69,262)	—	(69,262)	8,964	(60,298)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences	27	—	—	(6,769,135)	—	(6,769,135)	—	(6,769,135)
Total comprehensive loss		—	—	(6,807,725)	553,250	(6,254,475)	(52,680)	(6,307,155)
Transactions with owners in their capacity as owners								
Issuance of ordinary shares	26	—	5,151	(5,151)	—	—	—	—
Share of other reserves of investments accounted for using the equity method	12(b)	—	—	27,563	—	27,563	—	27,563
Employees share-based compensation scheme: —value of employee services	29	—	—	813,860	—	813,860	—	813,860
Appropriation to statutory reserves	27	—	—	215,184	(215,184)	—	—	—
Acquisition of a non-controlling interest of a subsidiary		—	—	—	—	—	159,958	159,958
Acquisition of additional equity interests in non-wholly owned subsidiaries		—	—	(64,140)	—	(64,140)	(49,653)	(113,793)
Total transactions with owners in their capacity as owners		—	5,151	987,316	(215,184)	777,283	110,305	887,588
Balance at December 31, 2016		150	742,760	(8,124,355)	(84,810,225)	(92,191,670)	133,795	(92,057,875)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—continued

	Note	Attributable to owners of the Company					Non-controlling interests	Total Equity
		Share capital	Share premium	Other reserves	Accumulated losses	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2017		150	742,760	(8,124,355)	(84,810,225)	(92,191,670)	133,795	(92,057,875)
Comprehensive loss								
Loss for the year		—	—	—	(43,826,016)	(43,826,016)	(63,099)	(43,889,115)
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss								
Share of other comprehensive income of investments accounted for using the equity method	12(b)	—	—	(22,783)	—	(22,783)	—	(22,783)
Currency translation differences	27	—	—	(127,598)	—	(127,598)	(9,526)	(137,124)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences	27	—	—	8,054,273	—	8,054,273	—	8,054,273
Total comprehensive loss		—	—	7,903,892	(43,826,016)	(35,922,124)	(72,625)	(35,994,749)
Transactions with owners in their capacity as owners								
Share of other reserves of investments accounted for using the equity method	12(b)	—	—	33,539	—	33,539	—	33,539
Employees share-based compensation scheme: —value of employee services	29	—	—	807,894	—	807,894	—	807,894
Appropriation to statutory reserves	27	—	—	326,450	(326,450)	—	—	—
Others		—	—	—	—	—	500	500
Total transactions with owners in their capacity as owners		—	—	1,167,883	(326,450)	841,433	500	841,933
Balance at December 31, 2017		150	742,760	947,420	(128,962,691)	(127,272,361)	61,670	(127,210,691)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended December 31, 2015 RMB'000	2016 RMB'000	2017 RMB'000
Cash flows from operating activities				
Cash (used in)/generated from operations	36	(2,293,755)	4,714,517	527,321
Income tax paid		(307,556)	(183,253)	(1,522,990)
Net cash (used in)/generated from operating activities		(2,601,311)	4,531,264	(995,669)
Cash flows from investing activities				
Capital expenditures		(2,524,356)	(1,826,245)	(1,217,806)
Proceeds from disposal of property and equipment		398	49,855	1,531
Placement of short-term bank deposits		(739,360)	(1,847,920)	(255,262)
Withdrawal of short-term bank deposits		753,894	2,147,124	448,690
Purchase of short-term investments measured at fair value through profit or loss		(57,474,480)	(53,086,000)	(104,284,000)
Receipt from maturity of short-term investments measured at fair value through profit or loss		62,873,480	50,442,943	103,254,537
Purchase of short-term investments measured at amortized cost		(15,405,000)	(1,151,000)	(10,641,000)
Receipt from maturity of short-term investments measured at amortized cost		15,607,000	2,700,000	9,921,000
Interest income received		198,285	106,983	266,054
Investment income received		292,055	98,837	162,702
Purchase of long-term investments measured at fair value through profit or loss		(2,891,017)	(809,882)	(813,175)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		742,011	260,391	494,018
Purchase of investments accounted for using the equity method		(567,025)	(924,608)	(156,551)
Dividends received		7,510	104,255	141,548
Net cash generated from/(used in) investing activities		873,395	(3,735,267)	(2,677,714)
Cash flows from financing activities				
Proceeds from issuance of convertible redeemable preferred shares		1,390,492	—	67,573
Proceeds from borrowings		3,246,800	740,000	11,174,861
Repayment of borrowings		(4,001,826)	(50,000)	(4,531,248)
Interest paid		(67,083)	(137,811)	(207,384)
Placement of restricted cash		—	(624,330)	(913,202)
Withdrawal of restricted cash		—	—	624,330
Net cash generated from/(used in) financing activities		568,383	(72,141)	6,214,930
Net (decrease)/increase in cash and cash equivalents		(1,159,533)	723,856	2,541,547
Cash and cash equivalents at the beginning of the year	25(a)	9,264,955	8,394,078	9,230,320
Effects of exchange rate changes on cash and cash equivalents		288,656	112,386	(208,585)
Cash and cash equivalents at end of the year	25(a)	8,394,078	9,230,320	11,563,282

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 General information and significant transactions

1.1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "Company"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman, KY1-1209, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "Group") are principally engaged in development and sales of smartphones, internet of things ("IoT") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of this report.

1.2 History of the Group

Lei Jun and the Co-founders established the Company on January 5, 2010, with an authorized share capital of US$50,000 divided into 50,000 ordinary shares with par value of US$1.00 each. Between August 17, 2010 and December 21, 2010, the Company effected capital reorganization, following which the ordinary shares in the authorized share capital were reclassified and redesignated into 162,500,000 Class A ordinary shares and 600,000,000 Class B ordinary shares, each with par value of US$0.0001.

Between September 28, 2010 and August 24, 2017, the Company issued a series of convertible redeemable preferred shares, further details of which are set out in Note 35.

The regulations in mainland China restrict foreign ownership of companies that provide value-added telecommunications services, which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain subsidiaries through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd ("Xiaomi Communications", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "Contractual Arrangements") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from the respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

1 General information and significant transactions—continued

1.2 History of the Group—continued

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 12(a).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information of the Group has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB"). In preparing the Historical Financial Information, the Group has early adopted IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15").

The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

The preparation of Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.1 Basis of preparation—continued

process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on January 1, 2017, are consistently applied to the Group for the Track Record Period.

2.1.1 Changes in accounting policy and disclosures

(a) New standards and interpretations have not yet been adopted

Standards, amendments and interpretations that have been issued but not yet effective and not been early adopted by the Group during the Track Record Period are as follows:

		Effective for annual period beginning on or after
Amendment to IFRS 2	Classification and measurement of share-based payment transaction	January 1, 2018
Amendment to IFRS 1	First time adoption of IFRS 1	January 1, 2018
Amendment to HKAS 28	Investments in associates and joint ventures	January 1, 2018
Amendments to HKAS 40	Transfers of investment property	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
IAS19	Employee benefits on plan amendment, curtailment or settlement	January 1, 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

None of these IFRS is expected to have a significant effect on the Historical Financial Information of the Group, except for the following as set out below:

IFRS 16 Leases ("IFRS 16") addresses the definition of a lease, recognition and measurement of leases and principles for reporting useful information to users of financial information about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheets for lessees. The Group is a lessee of various servers and properties which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in Note 2.29 with the Group's future operating lease commitments, which are not reflected in the consolidated balance sheets, set out in Note 38. IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognize certain leases outside of the balance sheets. Instead, almost all leases must be recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated balance sheets. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheets. As for the financial performance impact in the consolidated income statements, the operating lease expenses will decrease, while depreciation and amortization and the interest expense will increase. The new standard is not expected to apply until the financial year 2019.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-Group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group.

(b) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.2 Subsidiaries—continued

2.2.1 Consolidation—continued

(b) Business combination—continued

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions—that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("OCI") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.2 Subsidiaries—continued

2.2.2 Separate financial statements—continued

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statements where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statements, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other (losses)/gains, net" in the consolidated income statements.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.3 Associates—continued

(a) Investments in associates in the form of ordinary shares—continued

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statements.

(b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.10).

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is United States dollar ("US$"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its Historical Financial Information in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements. Foreign exchange gains and losses are presented in the consolidated income statements within "other losses/ gains, net".

Translation differences on non-monetary financial assets and liabilities such as instruments held at fair value through profit or loss are recognized in profit or loss as part of the fair value changes.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.5 Foreign currency translation—continued

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.6 Property and equipment—continued

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
— Electronic equipment	3 years
— Office equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses/gains, net" in the consolidated income statements.

2.7 Land use rights

Land use rights represent prepayments for the land use rights in mainland China and are stated at cost initially and expensed on a straight-line basis over the periods of the leases.

2.8 Intangible assets

(a) Goodwill

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.8 Intangible assets—continued

(b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

(c) Trademarks, patents and domain name

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 16 years.

(d) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded in amortization within operating expenses in the consolidated income statements.

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.8 Intangible assets—continued

(e) Research and development expenditures—continued

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.10 Financial assets—continued

2.10.2 Measurement—continued

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.
- Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other losses/gains, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses and impairment expenses are presented in other losses/gains, net.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other losses/gains, net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the consolidated income statements. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.10 Financial assets—continued

2.10.3 Impairment

The Group has types of financial assets subject to IFRS 9's new expected credit loss model:

- loan receivables from internet finance business;
- trade receivables for sales of goods or provision of services; and
- other receivables

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost including loan receivables, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.10 Financial assets—continued

2.10.4 Derecognition—continued

Asset-backed securities

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liabilities is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration paid for the derecognized portion shall be recorded in profit or loss.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for products sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2.10.3 for a description of the Group's impairment policy for trade and other receivables.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.13 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss arising from impairment is recognized in profit or loss. See Note 2.10.3 for a description of the Group's impairment policy for loan receivables.

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (see Note 2.17).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Convertible redeemable preferred shares ("Preferred Shares")

Convertible redeemable preferred shares issued by the Company are redeemable at the option of the holders at any time commencing on the redemption start date of December 23, 2019. This instrument can be converted into Class B ordinary shares of the Company at the option of a holder after July 3, 2015, or automatically converted into ordinary shares upon occurrence of (i) the closing of a **[REDACTED]**, or (ii) with written consent of holders of more than fifty percent (50%) of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds (2/3) of the issued and outstanding Preferred Shares (other than Series A Preferred Shares), as detailed in Note 35.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.17 Convertible redeemable preferred shares ("Preferred Shares")—continued

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statements.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated income statements.

The Preferred Shares are classified as non-current liabilities because the Preferred Shares holders cannot demand the Company to redeem the Preferred Shares for at least 12 months after the end of the reporting period.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statements over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.21 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statements, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.21 Current and deferred income tax—continued

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme ("MPF Scheme") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee—administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated income statements as and when incurred. The Group has no legal or constructive obligations to pay further contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.23 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("RSUs") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statements with a corresponding increase in equity.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.23 Share-based payment—continued

(a) Equity-settled share-based payment transactions—continued

In terms of the shares, RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-marketing performance and service conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statements, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.24 Provisions—continued

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to three years. The Group revaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

2.25 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of products

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(b) Internet services

Internet services mainly comprise advertising services and internet value-added services.

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.25 Revenue recognition—continued

(b) Internet services—continued

(i) Advertising services—continued

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third parties' apps are downloaded by users.

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. The Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal obtains control any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the end customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2.26 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.26 Interest income—continued

the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

2.27 Dividend income

Dividend income is recognized when the right to receive payment is established.

2.28 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statements over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the current liabilities and are credited to consolidated income statements on a straight-line basis over the expected lives of the related assets.

2.29 Operating leases

Leases of plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the repayment of lease liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statements on a straight-line basis over the period of the lease.

2.30 Financial guarantee contracts

Financial guarantee contracts are contracts that require the **[REDACTED]** to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance and the premium received on initial recognition less income recognized in according with principles of IFRS15.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

2 Summary of significant accounting policies—continued

2.30 Financial guarantee contracts—continued

For financial guarantee contracts, the loss allowance is recognized as provision.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries primarily operate in mainland China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/ weakened by 5% against US$ with all other variables held constant, the profit before income tax for the years ended December 31, 2015 would have been approximately RMB36,049,000 higher/lower as a result of net foreign exchange gains on translation of net monetary liabilities denominated in US$, and the profit before income tax for the years ended 2016 and 2017 would have been approximately RMB147,284,000 lower/higher and RMB124,351,000 lower/higher, respectively, as a result of net foreign exchange losses on translation of net monetary assets denominated in US$.

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 33), short-term investments measured at amortized cost, loan receivables, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB16,234,000 lower/higher, RMB17,343,000 lower/higher and RMB16,336,000 lower/higher, respectively. This analysis does not include the effect of interest capitalized.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.1 Financial risk factors—continued

(a) Market risk—continued

(ii) Interest rate risk—continued

RMB41,970,000 higher/lower, RMB46,152,000 higher/lower and RMB57,816,000 higher/lower, respectively.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, short-term bank deposits, restricted cash, short-term investments measured at amortized cost, loan receivables, trade receivables, other receivables, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, short-term bank deposits, restricted cash, short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding trade receivable balances due from them is not significant.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding other receivable balances due from them is not significant.

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.1 Financial risk factors—continued

(b) Credit risk—continued

from financial guarantee contracts is RMB2,175,086,000, the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently (as explained in Note 3.1(b)). The Group has recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, the Group performs standardised credit management procedures. For pre-approval investigation, the Group uses its platform and systems using big data technology to optimize the review process, including credit analysis, assessment of collectability of borrowers, possibility of misconduct and fraudulent activities. In terms of credit examining management, the Group has established specific policies and procedures to assess loans offering. For subsequent monitoring, the Group has implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviours. In post-loan supervision, the Group has established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("ECL") under IFRS 9.

(b1) Expected credit loss model for loan receivables, as summarised below:

- The loan receivables that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.
- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.
- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.
- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.1 Financial risk factors—continued

(b1) Expected credit loss model for loan receivables, as summarised below—continued:

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

(3) Measuring ECL—Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month ("12M") or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.1 Financial risk factors—continued

(b1) Expected credit loss model for loan receivables, as summarised below—continued:

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the period, and the subsequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the period;
- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the loss allowance for loan receivables between the beginning and the end of the period due to these factors:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Loss allowance as of January 1, 2015	—	—	—	—
New loan receivables originated	1,002	23	—	1,025
Loss allowance as of December 31, 2015	**1,002**	**23**	**—**	**1,025**
Transfers:				
Transfer from Stage 1 to Stage 2	—	—	—	—
Transfer from Stage 1 to Stage 3	(15)	—	665	650
Transfer from Stage 2 to Stage 3	—	(2)	26	24
Loan receivables derecognized during the year	(997)	(21)	—	(1,018)
New loan receivables originated	10,602	746	3,169	14,517
Loss allowance as of December 31, 2016	**10,592**	**746**	**3,860**	**15,198**
Transfers:				
Transfer from Stage 1 to Stage 2	(5)	278	—	273
Transfer from Stage 1 to Stage 3	(229)	—	20,859	20,630
Transfer from Stage 2 to Stage 3	—	(390)	11,616	11,226
Change in PDs/LGDs/EADs	—	—	3,407	3,407
Loan receivables derecognized during the year	(15,247)	(357)	(512)	(16,116)
New loan receivables originated	127,473	50,480	61,097	239,050
Loss allowance as of December 31, 2017	**122,584**	**50,757**	**100,327**	**273,668**

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.1 Financial risk factors—continued

(b2) Loss allowance—continued

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

- The high volume of new loan receivables originated during 2016 and 2017, aligned with the Group's organic growth objective, increased the gross carrying amount of the loan receivables by 1,580% and 519% with a corresponding RMB10,602,000 and RMB 127,473,000 increase in loss allowance measured on a 12-month basis, respectively.

The gross carrying amount of the loan receivables explains their significance to the changes in the loss allowance as discussed above:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Gross carrying amount as of January 1, 2015	—	—	—	—
New loan receivables originated	101,236	769	—	102,005
Gross carrying amount as of December 31, 2015	**101,236**	**769**	**—**	**102,005**
Transfers:				
Transfer from Stage 1 to Stage 2	(3)	3	—	—
Transfer from Stage 1 to Stage 3	(1,500)	—	1,500	—
Transfer from Stage 2 to Stage 3	—	(59)	59	—
Loan receivables derecognized during the year other than write-offs	(99,733)	(710)	—	(100,443)
New loan receivables originated	1,579,666	24,882	7,151	1,611,699
Gross carrying amount as of December 31, 2016	**1,579,666**	**24,885**	**8,710**	**1,613,261**
Transfers:				
Transfer from Stage 1 to Stage 2	(554)	554	—	—
Transfer from Stage 1 to Stage 3	(23,332)	—	23,332	—
Transfer from Stage 2 to Stage 3	—	(12,993)	12,993	—
Loan receivables derecognized during the year other than write-offs	(1,555,780)	(11,891)	(1,155)	(1,568,826)
New loan receivables originated	8,172,340	132,772	68,614	8,373,726
Gross carrying amount as of December 31, 2017	**8,172,340**	**133,327**	**112,494**	**8,418,161**

There is no originated credit-impaired loan receivables of the Group during the Track Record Period.

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write-off loan receivables that are still subject to enforcement activity. There is no loan receivables written off during the Track Record Period.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.1 Financial risk factors—continued

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements.

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
At December 31, 2015					
Borrowings	—	3,246,800	—	—	3,246,800
Trade payables	14,225,540	—	—	—	14,225,540
Other payables	938,463	71,581	—	—	1,010,044
At December 31, 2016					
Borrowings	3,768,500	390,000	—	—	4,158,500
Trade payables	17,577,702	—	—	—	17,577,702
Other payables	1,347,907	1,081	—	—	1,348,988
At December 31, 2017					
Borrowings	3,550,801	2,820,105	3,717,184	714,023	10,802,113
Trade payables	34,003,331	—	—	—	34,003,331
Other payables	3,568,286	206,935	216,496	143,953	4,135,670
Off-balance sheet guarantee liabilities	2,152,169	—	—	—	2,152,169

Details of the description of Preferred Shares are presented in Note 35.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital, share premium and Preferred Shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.2 Capital management—continued

considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has operation profits and a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2015:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	3,026,959	—	5,363,835	8,390,794
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	789,943	789,943
	3,026,959	—	6,153,778	9,180,737
Liabilities				
Convertible redeemable preferred shares (Note 35)	—	—	105,932,869	105,932,869

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.3 Fair value estimation—continued

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2016:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	3,302,689	—	9,046,509	12,349,198
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	3,437,537	3,437,537
	3,302,689	—	12,484,046	15,786,735
Liabilities				
Convertible redeemable preferred shares (Note 35)	—	—	115,802,177	115,802,177

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2017:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	5,764,532	—	13,092,429	18,856,961
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	4,488,076	4,488,076
	5,764,532	—	17,580,505	23,345,037
Liabilities				
Convertible redeemable preferred shares (Note 35)	—	—	161,451,203	161,451,203

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.3 Fair value estimation—continued

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets and liabilities include long-term investments measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and convertible redeemable preferred shares.

The changes in level 3 instruments of Preferred Shares for the years ended December 31, 2015, 2016 and 2017 are presented in the Note 35.

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	2,298,379	5,363,835	9,046,509
Addition	1,045,511	800,655	858,150
Disposal	(536,701)	(75,021)	(428,468)
Changes in fair value	2,367,659	2,561,469	4,136,955
Exchange gains/(losses)	188,987	395,571	(520,717)
At the end of the year	5,363,835	9,046,509	13,092,429
Net unrealized gains for the year	1,958,906	2,537,002	3,945,459

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2015, 2016 and 2017.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	6,177,000	789,943	3,437,537
Addition	57,474,480	53,086,000	104,284,000
Disposal	(63,165,535)	(50,541,780)	(103,417,239)
Changes in fair value	303,998	103,374	183,778
At the end of the year	789,943	3,437,537	4,488,076
Net unrealized gains for the year	11,943	4,537	21,076

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.3 Fair value estimation—continued

(c) Financial instruments in level 3—continued

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included Preferred Shares (Note 35), long-term investments measured at fair value through profit or loss in unlisted companies (Note 20) and short-term investments measured at fair value through profit or loss (Note 20). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc. Major assumptions used in the valuation for Preferred Shares are presented in Note 35.

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values As of December 31,			Significant unobservable inputs	Range of inputs As of December 31,			Relationship of unobservable inputs to fair values
	2015	2016	2017		2015	2016	2017	
	RMB'000	RMB'000	RMB'000					
Investments in unlisted companies	5,363,835	9,046,509	13,092,429	Expected volatility	33% - 62%	31% - 65%	26% - 63%	The higher the expected volatility, the lower the fair value
				Discount for lack of marketability ("DLOM")	15% - 20%	10% -20%	2% -25%	The higher the DLOM, the lower the fair value
				Risk-free rate	1%-3%	1%-3%	0%-4%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	789,943	3,437,537	4,488,076	Expected rate of return	2%-6%	2%-5%	2%-5%	The higher the expected rate of return, the higher the fair value

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB918,074,000 higher/lower, RMB1,578,674,000 higher/lower and RMB2,334,504,000 higher/lower, respectively.

Fair value of Preferred Shares is affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 10% with all other variables held constant, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 would have been approximately RMB10,593,287,000 lower/higher, RMB11,580,218,000 lower/higher and RMB16,145,120,000 lower/higher, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

3 Financial risk management—continued

3.3 Fair value estimation—continued

(c) Financial instruments in level 3—continued

There were no transfers between level 1, 2 and 3 of fair value hierarchy classifications during the years ended December 31, 2015, 2016 and 2017.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash, short-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities, including borrowing, trade payables and other payables, approximate their fair values due to their short maturities.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macro economic indicators etc. Further details are included in Note 3.1 to the Historical Financial Information.

(c) Fair value of Preferred Shares

The Preferred Shares issued by the Company are not traded in an active market and the respective fair value is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted equity allocation model to determine the fair value of the Preferred Shares. Key assumptions, such as discount rate, risk-free interest rate, lack of marketability discount and volatility are disclosed in Note 35.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4 Critical accounting estimates and judgments—continued

(c) Fair value of Preferred Shares—continued

The estimated carrying amount of Preferred Shares as of December 31, 2015, 2016 and 2017 would have been RMB8,500,932,000 lower/RMB10,093,141,000 higher, RMB8,955,195,000 lower/RMB10,615,974,000 higher and RMB11,975,507,000 lower/RMB13,687,425,000 higher, respectively, should the discount rate used in discounted cash flow analysis be higher/lower by 100 basis points from management's estimates.

(d) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

(e) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

(f) Recoverability of non-financial assets and investments accounted for using the equity method

The recoverable amount of non-financial assets and investments accounted for using the equity method is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs.

The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods. Additional information for the impairment assessment of investments accounted for using the equity method is disclosed in Note 12(b).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

4 Critical accounting estimates and judgments—continued

(g) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

(h) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

5 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smartphones
- IoT and lifestyle products
- Internet services
- Others

Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services. Others segment primarily comprises revenue-sharing from cellular network carriers in mainland China for the cellular service plans purchased by users of the Group's smartphones and revenue from the Group's hardware repair services for products.

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5 Segment information—continued

assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of losses of investments accounted for using the equity method, other income, other (losses)/gains-net, finance (expense)/income-net, fair value changes of convertible redeemable preferred shares, and income tax expense are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the years ended December 31, 2015, 2016 and 2017. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statements.

The segment results for the years ended December 31, 2015, 2016 and 2017 are as follows:

	Year ended December 31, 2015				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	53,715,410	8,690,563	3,239,454	1,165,831	66,811,258
Cost of sales	(53,886,309)	(8,655,686)	(1,160,777)	(408,553)	(64,111,325)
Gross (loss)/profit	(170,899)	34,877	2,078,677	757,278	2,699,933

	Year ended December 31, 2016				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	48,764,139	12,415,438	6,537,769	716,815	68,434,161
Cost of sales	(47,082,377)	(11,402,565)	(2,329,294)	(370,570)	(61,184,806)
Gross profit	1,681,762	1,012,873	4,208,475	346,245	7,249,355

	Year ended December 31, 2017				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	80,563,594	23,447,823	9,896,389	716,936	114,624,742
Cost of sales	(73,462,255)	(21,496,958)	(3,935,638)	(575,686)	(99,470,537)
Gross profit	7,101,339	1,950,865	5,960,751	141,250	15,154,205

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

5 Segment information—continued

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statements.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the years ended December 31, 2015, 2016 and 2017, the geographical information on the total revenues is as follows:

	Year ended December 31,					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Mainland China	62,755,575	93.9	59,279,381	86.6	82,543,462	72.0
Rest of the world	4,055,683	6.1	9,154,780	13.4	32,081,280	28.0
	66,811,258		68,434,161		114,624,742	

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2015, 2016 and 2017 are listed as below:

	Year ended December 31,		
	2015	2016	2017
	%	%	%
Customer A	10.4	15.4	13.5

All the revenues derived from other single external customer were less than 10% of the Group's total revenues during the Track Record Period.

6 Revenue

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Smartphones	53,715,410	48,764,139	80,563,594
IoT and lifestyle products	8,690,563	12,415,438	23,447,823
Internet services	3,239,454	6,537,769	9,896,389
Others	1,165,831	716,815	716,936
Total	66,811,258	68,434,161	114,624,742

7 Other income

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Government grants	87,698	217,046	121,151
Value added tax and other tax refunds	38,017	121,939	3,738
Dividend income	3,652	96,328	106,291
Investment income from short-term investments measured at fair value through profit or loss	292,055	98,837	162,702
Interest income from short-term investments measured at amortized cost	101,014	6,343	54,789
Total	522,436	540,493	448,671

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

8 Other (losses)/gains, net

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net gains on disposals of long-term investments measured at fair value through profit or loss	533,516	29,490	192,008
Gains on disposal of an investment accounted for using the equity method	—	—	91,429
Remeasurement from losing significant influence in an associate (Note 12(b))	—	(119,046)	—
Foreign exchanges losses, net	(506,528)	(54,291)	(144,265)
Impairment on investments accounted for using the equity method (Note 12(b))	(421,717)	(392,486)	—
Others	15,290	8,083	(67,132)
Total	(379,439)	(528,250)	72,040

9 Expenses by nature

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of inventories sold	59,224,465	55,575,050	89,468,462
Provision for impairment of inventories (Note 24)	776,989	280,045	652,560
Royalty fees	1,631,909	1,895,042	3,447,479
Employee benefit expenses (Note 10)	2,026,415	2,825,359	4,050,084
Depreciation of property and equipment (Note 16)	142,240	139,941	166,515
Amortization of intangible assets (Note 17)	64,221	100,090	194,441
Promotion and advertising expenses	152,909	963,418	1,921,590
Content fees to game developers and video providers	737,579	1,071,883	1,383,626
Provision for loan receivables	1,025	14,173	258,470
Consultancy and professional service fees	107,004	345,033	447,612
Cloud service, bandwidth and server custody fees	313,645	601,492	929,872
Office rental expenses	135,692	194,067	314,388
Warranty expenses	1,260,386	1,036,167	1,828,622
Auditor's remuneration	4,836	7,222	36,929

(a) During the Track Record Period, the Group incurred expenses for the purpose of research and development of approximately RMB1,511,815,000, RMB2,104,226,000 and RMB3,151,401,000, which comprised employee benefits expenses of RMB1,023,415,000, RMB1,443,244,000 and RMB2,239,765,000. No significant development expenses had been capitalized during the Track Record Period.

10 Employee benefit expense

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	1,038,454	1,526,022	2,428,247
Share-based compensation expenses (Note (a) and Note 29)	690,742	871,230	909,155
Contributions to pension plans	130,521	187,371	300,765
Other social security costs, housing benefits and other employee benefits	166,698	240,736	411,917
	2,026,415	2,825,359	4,050,084

Note:

(a) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Employee Fund. See Note 29 for detail.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10 Employee benefit expense—continued

(a) Five highest paid individuals

None of the five individuals whose emoluments were the highest in the Group for each of the Track Record Period were directors of the Group. The emoluments payable to the five highest paid individuals during the Track Record Period are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Wages, salaries and bonuses	2,315	3,023	8,148
Share-based compensation expenses	248,975	278,367	187,572
Pension costs—defined contribution plan	33	102	146
Other social security costs, housing benefits and other employee benefits	17	142	203
	251,340	281,634	196,069

The emoluments fell within the following bands:

	Number of individuals		
	Year ended December 31,		
	2015	2016	2017
Nil to HK$10,000,000	1	1	—
HK$10,000,001 to HK$30,000,000	1	1	2
HK$30,000,001 to HK$100,000,000	2	2	2
HK$100,000,001 to HK$150,000,000	1	1	1

(b) Benefits and interests of directors

No benefits and interests of directors subsisted at the end of the year or at any time during the Track Record Period.

(c) Directors' termination benefits

No director's termination benefit subsisted at the end of the year or at any time during the Track Record Period.

(d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted at the end of the year or at any time during the Track Record Period.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

10 Employee benefit expense—continued

(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the Track Record Period.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Period.

11 Finance (expenses)/income, net

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Finance income:			
Interest income from bank deposits	37,682	89,233	242,518
Finance costs:			
Interest expenses	124,705	188,530	258,235
Less: amount capitalized	(1,156)	(13,051)	(42,501)
	123,549	175,479	215,734

Interest income mainly represents interest income from bank deposits, including bank balance and term deposits.

Interest and related expenses mainly arise from the borrowings disclosed in Notes 33.

Finance costs have been capitalized on qualifying assets at average interest rates of 3.96%, 5.43% and 5.39% per annum for the years ended 2015, 2016 and 2017, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12(a) Major subsidiaries and controlled structured entities

As of December 31, 2015, 2016 and 2017, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities and place of operation
				As of December 31,			
				2015	2016	2017	
Subsidiaries							
Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	Hong Kong Dollar("HK$") 10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	—	100%	100%	100%	Investment holding and investment activities
Xiaomi Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	—	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar("SGD")1 and US$149,000,000	100%	100%	100%	Sales of smart hardware
Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$130,000,000	100%	100%	100%	Development and sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mailand China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Development and sales of smart hardware
Taiwan Xiaomi Communications Co., Ltd.	Taiwan, limited liability company	April 25, 2000	New Taiwan Dollar("NTD") 5,000,000	100%	100%	100%	Sales of smart hardware
Chongqing Xiaomi Microcredit Limited	Mainland China, limited liability company	June 12, 2015	US$150,000,000	100%	100%	100%	Internet finance and consumer loan services
Beijing Xiaomi Mobile Software Co., Ltd.	Mainland China, limited liability company	May 8, 2012	RMB288,000,000	100%	100%	100%	Software and hardware development and provision of software related services
Tibet Zimi Communications Co., Ltd.	Mainland China, limited liability company	January 24, 2013	RMB1,000,000	100%	100%	100%	Sales of smart hardware
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12(a) Major subsidiaries and controlled structured entities—continued

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2015	2016	2017	Principal activities and place of operation
Subsidiaries							
Indirectly held(continued):							
Guangdong Xiaomi Inc.	Mainland China, limited liability company	September 21, 2015	RMB1,000,000,000	100%	100%	100%	Provision of software and technology service
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	—	NA	100%	100%	Sales of smart hardware
Timi Personal Computing Co., Ltd.	Mainland China, limited liability company	July 28, 2015	RMB550,000	67%	78%	78%	Sales of smart hardware
Xiaomi Communications and Logistics India Private Limited	India, limited liability company	April 1, 2015	Indian Rupees ("INR")30,000,000	100%	100%	100%	Provision of logistics services
Xiaomi Technology India Private Limited	India, limited liability company	October 7, 2014	INR100,000	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	NA	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	NA	NA	100%	Operation of retail stores
Beijing Xiaomi Digital Technology Co., Ltd.	Mainland China, limited liability company	December 21, 2010	US$7,900,000	100%	100%	100%	Research and development of computer software and information technology
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	—	100%	100%	100%	Investment activities
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	—	100%	100%	100%	Investment activities
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	—	100%	100%	100%	Investment activities

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12(a) Major subsidiaries and controlled structured entities—continued

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2015	2016	2017	Principal activities and place of operation
Subsidiaries							
Structured entities (Note (a))							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB1,200,000,000	100%	100%	100%	Investment activities
Sichuan Silver Mi Technology Co., Ltd.	Mainland China, limited liability company	October 26, 2005	RMB2,000,000,000	100%	100%	100%	Research and development of computer software and market research
Jiefu Ruitong Inc. (Note (b))	Mainland China, limited liability company	January 11, 2011	RMB100,000,000	NA	65%	65%	Provision of electronic payment services
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services
Tianjin Gold Mi Investment Partners (Limited Partnership)	Mainland China, limited partnership	July 16, 2014	RMB1,132,400,220	100%	100%	100%	Investment activities

Note:

(a) As described in Note 1.2, the Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) Jiefu Ruitong Inc. was established in mainland China on January 11, 2011 and was subsequently acquired by the Group on June 14, 2016.

(c) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(d) The English name of the company is a direct translation or transliteration of its Chinese registered name.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12(b) Investments accounted for using the equity method

Group

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Investments in associate accounted for using the equity method			
—Listed entities	1,205,528	501,549	386,490
—Unlisted entities	523,741	1,351,014	1,324,329
	1,729,269	1,852,563	1,710,819

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	1,596,138	1,729,269	1,852,563
Addition (Note (a),(b))	567,025	933,458	156,551
Disposal and transfer (Note (b))	—	(319,532)	(42,298)
Share of losses	(92,781)	(150,445)	(231,496)
Share of other comprehensive income/(loss)	59,930	32,663	(22,783)
Share of changes of other reserves	24,532	27,563	33,539
Dividends	(3,858)	(7,927)	(35,257)
Impairment provision (Note (c))	(421,717)	(392,486)	—
At the end of the year	1,729,269	1,852,563	1,710,819

Note:

(a) In December 2016, the Group invested 29.5% interest in Sichuan Xin Wang Bank Co.Ltd ("XW Bank") for a cash consideration of RMB885 million. XW Bank is a privately-owned commercial bank in mainland China.

(b) In January 2015, the Group entered into a share purchase agreement with 21 Vianet Group, Inc. ("21 Vianet"), a company listed on Nasdaq Stock Exchange, at a consideration of US$50 million (equivalent to approximately RMB306 million). In June 2016, the Group derecognized the investment in associate after losing significant influence over 21 Vianet, which has become a financial asset at fair value through profit or loss, resulting from deemed disposal loss of RMB119,046,000.

(c) As of December 31, 2015 and 2016, the fair value of investment in Xunlei Limited ("Xunlei"), a company listed on Nasdaq Stock Exchange was RMB919,521,000 and RMB501,549,000, below its carrying amount by approximately 31% and 44%. Management performed impairment test accordingly considering such impairment indicator. The recoverable amount of the interest in Xunlei is determined by fair value less cost of disposal. Based on management's assessment results, the Group made an impairment provision of RMB421,717,000 and RMB392,486,000 for the years ended December 31, 2015 and 2016, respectively. No impairment indicator was noted as of December 31, 2017.

Management has assessed the level of influence that the Group exercises on these associates, with a total carrying amount of RMB 1,729,269,000, RMB 1,852,563,000 and RMB 1,710,819,000 as of December 31, 2015, 2016 and 2017, respectively, and determined that it has significant influence through the board representation, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12(b) Investments accounted for using the equity method—continued

Set out below are the material associates of the Group as of December 31, 2015, 2016 and 2017. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of incorporation	% of ownership interest	Principal activities/place of operation	Quoted fair value			Carrying amount		
				As of December 31,			As of December 31,		
				2015	2016	2017	2015	2016	2017
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Xunlei	Cayman Islands	28	Provision of Cloud computing service	919,521	501,549	1,883,586	919,521	501,549	386,490
XW Bank	Mainland China	29.5	Provision of Internet banking service	NA	NA	NA	NA	877,347	827,534

The associates of the Group have been accounted by using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

Set out below are the summarized financial information of material associates.

	Xunlei			XW Bank		
	As of December 31,			As of December 31,		
	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated balance sheets						
Current assets	2,971,817	2,860,020	2,814,823	—	3,031,547	15,074,511
Non-current assets	1,086,917	1,097,998	970,525	—	53,069	1,241,408
Current liabilities	498,293	647,950	925,870	—	16,604	13,003,685
Non-current liabilities	250,735	175,734	133,121	—	93,955	507,034
Non-controlling interests	(12,724)	(12,232)	(14,114)	—	—	—
Equity attributable to owners of the Company	3,322,430	3,146,566	2,740,471	—	2,974,057	2,805,200
Reconciliation to carrying amounts:						
Group's share of net assets attributable to owners of the associates	917,005	891,519	776,460	—	877,347	827,534
Adjustment						
—Goodwill	424,233	424,233	424,233	—	—	—
—Impairment provision	(421,717)	(814,203)	(814,203)	—	—	—
Carrying amount	919,521	501,549	386,490	—	877,347	827,534

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

12(b) Investments accounted for using the equity method—continued

	Xunlei			XW Bank		
	Year ended December 31,			Year ended December 31,		
	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income						
Revenues	810,031	1,042,348	1,364,373	—	1,204	342,366
Loss from operations	(77,672)	(222,241)	(366,252)	—	(34,534)	(241,967)
Loss before tax	(20,289)	(167,609)	(313,998)	—	(34,534)	(226,174)
Net loss	(90,141)	(160,590)	(255,487)	—	(25,943)	(169,569)
Other comprehensive income/(loss)	180,411	90,228	(59,220)	—	—	712
Total comprehensive income/(loss)	90,270	(70,362)	(314,707)	—	(25,943)	(168,857)

There are no contingent liabilities relating to the Group's interest in the associates.

13 Income tax expenses

The income tax expenses of the Group during the Track Record Period are analyzed as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current income tax	289,860	381,337	1,644,674
Deferred income tax (Note 34)	(135,341)	302,566	415,089
Income tax expenses	154,519	683,903	2,059,763

The tax on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	(7,472,511)	1,175,509	(41,829,352)
Tax calculated at statutory income tax rate of 25% in mainland China (Note(a))	(1,868,128)	293,877	(10,457,338)
Tax effects of:			
—Effect of different tax rates in other jurisdictions (Note(b)(c)(d))	1,869,322	367,690	12,646,524
—Preferential income tax rates applicable to subsidiaries(Note(e))	(44,616)	(91,226)	(393,879)
—Tax losses and temporary differences for which no deferred income tax assets was recognized	185,652	143,441	199,363
—Expenses not deductible for income tax purposes	188,533	206,440	209,721
—Utilization of previously unrecognized deductible temporary differences	(89,009)	(84,531)	(5,010)
—Super Deduction for research and development expenses(Note(f))	(80,223)	(100,714)	(127,993)
—Income not subject to tax	(7,012)	(51,074)	(26,537)
—Others	—	—	14,912
Income tax expenses	154,519	683,903	2,059,763

Note:

(a) Enterprise income tax in mainland China ("EIT")

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

13 Income tax expenses—continued

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Cayman Islands and British Virgin Islands income tax
The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the fair value loss of Preferred Shares (Note 35), is not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("BVI") are exempt from BVI income taxes.

(c) Hong Kong income tax
Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(d) India income tax
The income tax provision for India entity was calculated at effective tax rates of 30% to 35% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate
Certain subsidiaries are entitled to preferential tax rates ranging from 9% to 15%. Main subsidiaries with preferential EIT rates are as follows:
Beijing Xiaomi Mobile Software Co., Ltd. was accredited as a software enterprise under the relevant laws and regulations in mainland China in 2012. Accordingly, Beijing Xiaomi Mobile Software Co., Ltd. is exempt from EIT for two years since 2012, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years as 2014 to 2016. Provided that it is also qualified as a "high and new technology enterprise", Beijing Xiaomi Mobile Software Co., Ltd. enjoys a preferential income tax rate of 15% commencing from 2017. It is subject to a EIT rate of 12.5%, 12.5% and 15% for the years ended December 31, 2015, 2016 and 2017.

Tibet Zimi Communications Co., Ltd., established in the Tibet Autonomous Region of the People's Republic of China, is entitled to a preferential rate of 9% for the years ended December 31, 2015, 2016 and 2017.

(f) Super Deduction for research and development expense
According to the relevant laws and regulations promulgated by the State Tax Bureau of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the Track Record Period.

(g) Withholding tax in mainland China ("WHT")
According to the New Corporate Income Tax Law ("New EIT Law"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings was accrued as of the end of each reporting period.

14 Earnings/(loss) per share

(a) Basic

Basic earnings or loss per share for the years ended December 31, 2015, 2016 and 2017 are calculated by dividing the profit or loss attributable to the Company's equity holder by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net (loss)/profit attributable to the owners of the Company	(7,581,295)	553,250	(43,826,016)
Weighted average number of ordinary shares in issue (thousand shares)	967,790	968,223	975,817
Basic (loss)/earnings per share (expressed in RMB per share)	(7.834)	0.571	(44.912)

As of December 31, 2015, 2016 and 2017, 6,180,133, 2,400,000 and 2,400,000 ordinary shares were issued to several employees. However, the shareholders' rights of these shares were restricted and

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

14 Earnings/(loss) per share—continued

(a) Basic—continued

would be vested over certain service periods. Accordingly, these shares were accounted for as RSUs. The Group did not include these ordinary shares in the calculation of basic (loss)/earnings per share for the years ended December 31, 2015, 2016 and 2017 as these shares are not considered outstanding for earnings/(loss) per share calculation purposes.

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

As the Group incurred losses for the years ended December 31, 2015 and 2017, the potential ordinary shares were not included in the calculation of dilutive (loss)/earnings per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the years ended December 31, 2015 and 2017 are same as basic loss per share of respective years.

For the year ended December 31, 2016, diluted earnings per share was calculated by considering that (i) the service-based share options and most RSUs were not dilutive potential ordinary shares as they could not be exercised and settled until the Company completes its **[REDACTED]**; (ii) the convertible redeemable preferred shares issued by the Company were excluded from the diluted weighted average number of ordinary shares calculation, as their effect would have been anti-dilutive.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net (loss)/profit attributable to the owners of the Company	(7,581,295)	553,250	(43,826,016)
Weighted average number of ordinary shares in issue (thousand shares)	967,790	968,223	975,817
Adjustments for RSUs granted to employees (thousand shares)	—	1,587	—
Weighted average number of ordinary shares for calculation of diluted (loss)/earnings per share (thousand shares)	967,790	969,810	975,817
Diluted (loss)/earnings per share (expressed in RMB per share)	(7.834)	0.570	(44.912)

15 Land use rights

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At January 1,	—	—	3,494,041
Additions	—	3,557,967	—
Amortization	—	(63,926)	(77,682)
At December 31,	—	3,494,041	3,416,359

The Group had paid an aggregate of approximately RMB3,557,967,000 for the acquisition of land use rights for new office buildings, pursuant to the agreements entered into with local government in 2015 and 2016. During the year ended December 31, 2016, the Group obtained certificates for the land use rights. The authorized periods of the land use rights were 40 to 50 years. The new office buildings are under construction during the Track Record Period (Note 16).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16 Property and equipment

	Electronic equipment	Office equipment	Leasehold Improve-ments	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015					
Cost	243,924	13,672	47,399	—	304,995
Accumulated depreciation	(71,377)	(5,995)	(23,319)	—	(100,691)
Net book amount	172,547	7,677	24,080	—	204,304
Year ended December 31, 2015					
Opening net book amount	172,547	7,677	24,080	—	204,304
Currency translation differences	(32)	(7)	—	—	(39)
Additions	105,375	643	62,828	59,431	228,277
Disposals	(113)	(6)	—	—	(119)
Depreciation charge (Note 9)	(90,813)	(2,715)	(48,712)	—	(142,240)
Closing net book amount	186,964	5,592	38,196	59,431	290,183
At December 31, 2015					
Cost	348,409	14,274	110,228	59,431	532,342
Accumulated depreciation	(161,445)	(8,682)	(72,032)	—	(242,159)
Net book amount	186,964	5,592	38,196	59,431	290,183
Year ended December 31, 2016					
Opening net book amount	186,964	5,592	38,196	59,431	290,183
Currency translation differences	106	37	21	—	164
Additions	98,928	1,669	52,909	583,150	736,656
Disposals	(38,570)	(115)	—	—	(38,685)
Depreciation charge (Note 9)	(86,772)	(2,134)	(51,035)	—	(139,941)
Closing net book amount	160,656	5,049	40,091	642,581	848,377
At December 31, 2016					
Cost	372,970	15,450	163,103	642,581	1,194,104
Accumulated depreciation	(212,314)	(10,401)	(123,012)	—	(345,727)
Net book amount	160,656	5,049	40,091	642,581	848,377
Year ended December 31, 2017					
Opening net book amount	160,656	5,049	40,091	642,581	848,377
Currency translation differences	(23)	(6)	(1)	—	(30)
Additions	50,880	17	167,981	831,180	1,050,058
Disposals	(131)	(887)	—	—	(1,018)
Depreciation charge (Note 9)	(86,455)	(1,726)	(78,334)	—	(166,515)
Closing net book amount	124,927	2,447	129,737	1,473,761	1,730,872
At December 31, 2017					
Cost	422,515	14,317	331,083	1,473,761	2,241,676
Accumulated depreciation	(297,588)	(11,870)	(201,346)	—	(510,804)
Net book amount	124,927	2,447	129,737	1,473,761	1,730,872

Construction in progress as of December 31, 2015, 2016 and 2017 mainly comprises new office buildings being constructed in mainland China.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

16 Property and equipment—continued

Depreciation expenses have been charged to the consolidated income statements as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Administration expenses	69,515	59,016	56,191
Selling and marketing expenses	31,321	38,703	62,763
Research and development expenses	41,404	42,222	47,561
	142,240	139,941	166,515

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17 Intangible assets

	Goodwill	License	Trademarks patents and domain name	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015					
Cost	248,167	934	206,660	56,207	511,968
Accumulated amortization	—	(655)	(37,901)	(30,664)	(69,220)
Net book amount	248,167	279	168,759	25,543	442,748
Year ended December 31, 2015					
Opening net book amount	248,167	279	168,759	25,543	442,748
Currency translation differences	—	—	395	—	395
Additions	—	3,680	150,178	20,979	174,837
Amortization charge (Note 9)	—	(3,322)	(47,923)	(12,976)	(64,221)
Closing net book amount	248,167	637	271,409	33,546	553,759
At December 31, 2015					
Cost	248,167	4,614	357,235	77,186	687,202
Accumulated amortization	—	(3,977)	(85,826)	(43,640)	(133,443)
Net book amount	248,167	637	271,409	33,546	553,759
Year ended December 31, 2016					
Opening net book amount	248,167	637	271,409	33,546	553,759
Currency translation differences	—	—	3,511	4	3,515
Additions (Note(a))	—	371,883	280,432	11,325	663,640
Disposals	—	(290)	—	(401)	(691)
Amortization charge (Note 9)	—	(651)	(80,538)	(18,901)	(100,090)
Closing net book amount	248,167	371,579	474,814	25,573	1,120,133
At December 31, 2016					
Cost	248,167	375,940	643,389	88,034	1,355,530
Accumulated amortization	—	(4,361)	(168,575)	(62,461)	(235,397)
Net book amount	248,167	371,579	474,814	25,573	1,120,133
Year ended December 31, 2017					
Opening net book amount	248,167	371,579	474,814	25,573	1,120,133
Currency translation differences	—	—	(14,942)	(1)	(14,943)
Additions (Note(b))	—	967,746	376,098	19,759	1,363,603
Amortization charge (Note 9)	—	(59,374)	(112,765)	(22,302)	(194,441)
Closing net book amount	248,167	1,279,951	723,205	23,029	2,274,352
At December 31, 2017					
Cost	248,167	1,343,686	1,003,239	107,792	2,702,884
Accumulated amortization	—	(63,735)	(280,034)	(84,763)	(428,532)
Net book amount	248,167	1,279,951	723,205	23,029	2,274,352

Note (a): Intangible assets acquired in 2016 mainly represented the acquired third-party payment license.
Note (b): Intangible assets acquired in 2017 mainly include licenses to use certain intellectual properties.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

17 Intangible assets—continued

Amortization charges were expensed off in the following categories in the consolidated income statements:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Administration expenses	23,159	29,721	105,162
Selling and marketing expenses	1,569	906	668
Research and development expenses	39,493	69,463	88,611
Total	64,221	100,090	194,441

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the Track Record Period, no goodwill or other identifiable intangible assets have been impaired.

18 Investments in subsidiaries—Company

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Investment in subsidiaries (Note (a))	1,237,472	2,422,751	2,482,699
Deemed investments arising from share-based compensation (Note (b))	1,553,241	2,423,441	3,332,596
	2,790,713	4,846,192	5,815,295

Notes:

(a) The Company's investment in subsidiaries was US$190,568,000 (equivalent to approximately RMB1,237,472,000), US$349,251,000 (equivalent to approximately RMB2,422,751,000) and US$379,955,000 (equivalent to approximately RMB2,482,699,000) as of December 31, 2015, 2016 and 2017, respectively.

(b) The amount represents share-based compensation expenses arising from the grant of share options of the Company to employees of the subsidiaries (Note 29) in exchange for their services provided to these subsidiaries, which were deemed to be investments made by the Company into these subsidiaries.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

19 Financial instruments by category

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Assets as per balance sheet			
Financial assets at fair value through profit or loss:			
—Long-term investments measured at fair value through profit or loss (Note 20)	8,390,794	12,349,198	18,856,961
—Short-term investments measured at fair value through profit or loss (Note 20)	789,943	3,437,537	4,488,076
Financial assets at amortized costs:			
—Trade receivables (Note 22)	1,470,155	2,089,518	5,469,507
—Loan receivables (Note 21)	100,980	1,598,063	8,144,493
—Other receivables	966,664	3,276,696	7,506,631
—Short-term investments measured at amortized cost (Note 20)	1,629,000	80,000	800,000
—Short-term bank deposits (Note 25(c))	739,360	440,156	225,146
—Restricted cash (Note 25(b))	67,060	633,964	2,711,119
—Cash and cash equivalents (Note 25(a))	8,394,078	9,230,320	11,563,282
	22,548,034	33,135,452	59,765,215
Liabilities as per balance sheet			
Financial liabilities at amortized cost:			
—Trade payables (Note 30)	14,225,540	17,577,702	34,003,331
—Other payables (excluding staff payroll and welfare payables, government grants and other taxes payables)	853,696	1,249,267	3,076,153
—Borrowings (Note 33)	3,246,800	4,158,500	10,802,113
Financial liabilities measured at fair value through profit or loss:			
—Convertible redeemable preferred shares (Note 35)	105,932,869	115,802,177	161,451,203
	124,258,905	138,787,646	209,332,800

20 Investments

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current assets			
Short-term investments measured at			
—Amortized cost (i)	1,629,000	80,000	800,000
—Fair value through profit or loss (ii)	789,943	3,437,537	4,488,076
	2,418,943	3,517,537	5,288,076
Non-current assets			
Long-term investments measured at fair value through profit or loss			
—Equity investments (iii)	3,878,641	4,503,926	7,448,251
—Preferred shares investments (iv)	4,512,153	7,845,272	11,408,710
	8,390,794	12,349,198	18,856,961

(i) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are wealth management products with guaranteed returns. They are denominated in RMB. The investments are held for collection of

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20 Investments—continued

(i) Short-term investments measured at amortized cost—continued

contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.

(ii) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of return ranging from 1.76% to 5.80%, 2.00% to 5.07% and 2.00% to 5.10% per annum for the years ended December 31, 2015, 2016 and 2017, respectively. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

(iii) Equity investments

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Listed	3,026,959	3,302,689	5,764,532
Unlisted	851,682	1,201,237	1,683,719
	3,878,641	4,503,926	7,448,251

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as Level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

(iv) Preferred shares investments

During the years ended December 31, 2015, 2016 and 2017, the Group made aggregate preferred shares investments of RMB817,314,000, RMB672,775,000 and RMB369,975,000, respectively. These investees are principally engaged in sales of goods and provision of internet services.

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

20 Investments—continued

(iv) Preference shares investments—continued

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as Level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

(v) Amounts recognized in profit or loss

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fair value changes on equity investments	1,236,034	357,776	2,569,974
Fair value changes on preferred shares investments	1,565,376	2,364,970	3,780,048
Fair value changes on short-term investments measured at fair value through profit or loss	11,943	4,537	21,076
	2,813,353	2,727,283	6,371,098

21 Loan receivables

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Unsecured loan	102,005	1,613,261	8,418,161
Less: allowance for impairment	(1,025)	(15,198)	(273,668)
	100,980	1,598,063	8,144,493

Loan receivables are loans derived from subsidiaries of the Group which engages in the internet finance business. Such amounts are recorded at the principal amount less allowance for doubtful accounts. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

22 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Third parties	1,487,537	1,981,250	5,337,711
Related parties	13,177	148,316	188,616
	1,500,714	2,129,566	5,526,327
Less: allowance for impairment	(30,559)	(40,048)	(56,820)
	1,470,155	2,089,518	5,469,507

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22 Trade receivables—continued

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	1,112,565	1,308,583	2,787,885
INR	132,488	623,475	2,389,901
SGD	196,098	92,096	10,789
US$	2,980	44,036	264,912
Others	26,024	21,328	16,020
	1,470,155	2,089,518	5,469,507

Movements on the Group's allowance for impairment of trade receivables are as follows:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	—	(30,559)	(40,048)
Provision for doubtful receivables	(30,565)	(9,489)	(24,467)
Reversal of provision for previous impaired receivables	—	—	7,502
Receivables written off during the year as uncollectable	6	—	193
At the end of the year	(30,559)	(40,048)	(56,820)

(a) The Group allows a credit period within 180 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables			
Up to 3 months	1,319,371	1,943,643	5,099,590
3 to 6 months	115,680	115,885	302,354
6 months to 1 year	62,083	38,097	39,028
1 to 2 years	3,580	30,840	53,613
Over 2 years	—	1,101	31,742
	1,500,714	2,129,566	5,526,327

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

22 Trade receivables—continued

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses below also incorporate forward looking information. The loss allowance provisions as of December 31, 2015, 2016 and 2017 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2015:					
Expected loss rate	0.05%	0.38%	31.07%	53.00%	
Gross carrying amount (in thousand)	1,044,416	389,851	30,576	35,871	1,500,714
Loss allowance provision (in thousand)	557	1,490	9,500	19,012	30,559
December 31, 2016:					
Expected loss rate	0.03%	1.15%	35.18%	54.41%	
Gross carrying amount (in thousand)	1,842,847	205,306	37,060	44,353	2,129,566
Loss allowance provision (in thousand)	525	2,354	13,038	24,131	40,048
December 31, 2017:					
Expected loss rate	0.01%	0.96%	37.27%	41.59%	
Gross carrying amount (in thousand)	4,951,616	444,031	50,435	80,245	5,526,327
Loss allowance provision (in thousand)	383	4,270	18,797	33,370	56,820

As of December 31, 2015, 2016 and 2017, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

23 Prepayments and other receivables

Group

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Receivables from outsourcing partners for supply of raw materials	347,639	1,929,600	5,663,419
Recoverable value-added tax and other taxes	1,657,857	1,173,704	3,387,401
Receivables from import and export agents	—	132,493	644,766
Prepayments to suppliers	350,516	114,770	304,286
Receivables from market development fund	—	105,654	199,751
Prepaid fees for establishing loan facilities and other prepaid expenses	143,731	183,248	195,592
Receivables from employees related to employee fund (Note (a))	156,200	142,200	114,850
Receivables from disposal of investments	203,831	164,281	108,056
Interest receivables	21,826	21,401	104,521
Deposits to suppliers	28,795	563,688	96,913
Loans to related parties (Note (b))	76,463	74,329	62,143
Others	131,910	143,050	512,212
	3,118,768	4,748,418	11,393,910

Note (a): Receivables from employees related to employee fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 29.

Note (b): The loans to related parties were unsecured, repayable on demand and carry interest rate at ceiling of 8% per annum.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

23 Prepayments and other receivables—continued

As of December 31, 2015, 2016 and 2017, the carrying amounts of other receivables were primarily denominated in RMB and approximated their fair values at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from outsourcing partners for supply of raw materials, receivables from import and export agents, receivables from market development fund, receivables from disposal of investments, deposits to suppliers, receivables from employees related to employee fund, interest receivables, loans to related parties and others were considered to be of low credit risk, and thus the impairment provision recognized during the years ended December 31, 2015, 2016 and 2017 was limited to 12 months expected losses.

Company

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Amount due from subsidiaries	8,402,606	7,836,449	7,432,212
Others	159,241	145,448	117,910
	8,561,847	7,981,897	7,550,122

As of December 31, 2015, 2016 and 2017, the carrying amounts of other receivables were primarily denominated in US$ and approximated their fair values at each of the reporting dates. The balances were considered to be of low credit risk, and thus the impairment provision recognized during the period was limited to 12 months expected losses.

24 Inventories

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	1,052,131	2,958,699	5,117,285
Finished goods	5,622,542	3,326,181	8,461,798
Work in progress	1,735,739	988,561	1,352,886
Spare parts	772,070	906,155	1,569,040
Others	261,929	481,905	510,061
	9,444,411	8,661,501	17,011,070
Less: provision for impairment (Note (a))	(801,228)	(283,159)	(668,142)
	8,643,183	8,378,342	16,342,928

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB776,989,000, RMB280,045,000 and RMB652,560,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

24 Inventories—continued

Provision for impairment movements for the years ended December 31, 2015, 2016 and 2017 are as below:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	(155,729)	(801,228)	(283,159)
Provision for impairment	(776,989)	(280,045)	(652,560)
Transfer to cost of sales upon sold	131,490	798,114	267,577
At the end of the year	(801,228)	(283,159)	(668,142)

25 Cash and bank balances

(a) Cash and cash equivalents

Group

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	6,609,598	7,512,377	7,598,660
Short-term bank deposits with initial terms within three months	1,784,480	1,717,943	3,964,622
	8,394,078	9,230,320	11,563,282

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	1,766,628	1,663,457	5,372,675
US$	6,353,770	6,410,271	3,625,567
INR	65,250	989,794	2,384,434
NTD	28,411	75,681	138,704
HK$	4,781	73,230	35,702
Others	175,238	17,887	6,200
	8,394,078	9,230,320	11,563,282

The weighted average effective interest rate for the short-term bank deposits was 0.95%, 1.96% and 2.78% for the years ended December 31, 2015, 2016 and 2017, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25 Cash and bank balances—continued

(a) Cash and cash equivalents—continued

Company

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	15,991	2,227	2,131

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
US$	15,991	2,227	2,131

(b) Restricted cash

As of December 31, 2015, RMB67,060,000 restricted deposits were held at bank as guarantee for letters of credit provided by the Shanghai Pudong Development Bank.

As of December 31, 2016, the aggregate principal amount of short-term bank deposits, amounting to US$90,000,000 (equivalent to approximately RMB624,330,000) were held at bank as guarantee for bank borrowings of RMB300,000,000 from Bank of Ningbo (Note 33).

As of December 31, 2017, US$70,000,000 (equivalent to approximately RMB457,394,000) and US$180,000,000 (equivalent to approximately RMB1,176,156,000) restricted deposits were held at bank as guarantee for letters of credit provided by the Industrial and Commercial Bank of China and the Agricultural Bank of China, respectively. The aggregate principal amount of short-term bank deposits, amounting to US$79,000,000 (equivalent to approximately RMB516,202,000) and RMB397,000,000 were held at bank as guarantee for bank borrowings of RMB350,000,000 from Bank of Ningbo and US$58,064,000 (equivalent to approximately RMB379,404,000) from China Merchants Bank (Note 33), respectively.

The weighted average effective interest rate was 1.55%, 1.50% and 2.50% per annum for the years ended December 31, 2015, 2016 and 2017, respectively.

(c) Short-term bank deposits

An analysis of the Group's short-term bank deposits as of December 31, 2015, 2016 and 2017 are listed as below:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Short-term bank deposits denominated in RMB	90,000	72,030	20,000
Short-term bank deposits denominated in INR	—	188	205,146
Short-term bank deposits denominated in US$	649,360	367,938	—
	739,360	440,156	225,146

Short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

25 Cash and bank balances—continued

(c) Short-term bank deposits—continued

The effective interest rate of the short-term bank deposits of the Group ranges from 1.30% to 3.40%, 1.27% to 7.45% and 2.25% to 7.45% per annum for the years ended December 31, 2015, 2016 and 2017, respectively.

26 Share capital

Authorized:

	Note	Number of ordinary shares	Nominal value of ordinary shares	Number of Preferred Shares	Nominal value of Preferred Shares
		'000	US$'000	'000	US$'000
As of January 1, 2015		3,499,511	87	1,039,690	26
Issuance of Series F1 Preferred Shares	(b)	—	—	1,148	—
Reclassification and re-designation upon issuance of Series F1 Preferred Shares	(c)	(9,917)	—	9,917	—
As of December 31, 2015 and 2016		3,489,594	87	1,050,755	26
Issuance of Series F1 Preferred Shares	(d)	—	—	496	—
As of December 31, 2017		3,489,594	87	1,051,251	26

Issued:

	Note	Number of ordinary shares	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares	Share Premium
		'000	US$'000	RMB'000	RMB'000
As of January 1, 2015		972,541	24	148	656,716
Conversion of Preferred Shares to ordinary shares	(e)	758	—	—	65,419
Issuance of ordinary shares	(f)	4,918	—	2	15,474
As of December 31, 2015		978,217	24	150	737,609
Issuance of ordinary shares		—	—	—	5,151
As of December 31, 2016 and 2017		978,217	24	150	742,760

Note:

(a) The number of authorized Class A ordinary shares was 688,385,679 while the number of authorized Class B ordinary shares was 2,801,208,137 as of December 31, 2015, 2016 and 2017, respectively. Each Class A ordinary share will entitle the holder to exercise 10 votes, and each Class B ordinary share will entitle the holder to exercise one vote, on any resolution tabled at the Company's general meetings, except for resolutions with respect to a limited number of reserved matters, in relation to which each ordinary share is entitled to one vote.

The number of outstanding Class A ordinary shares was 669,518,772 while the number of outstanding Class B ordinary shares was 308,698,531 as of December 31, 2015, 2016 and 2017, respectively.

(b) On March 25, 2015, the Company entered into a share purchase agreement with the Series F1 Investors and pursuant to which, the Company issued 1,147,843 shares of Series F1 Preferred Shares at a price of US$20.1682 per share with total consideration of US$23,150,000 (equivalent to approximately RMB144,252,000). The issuance of the Series F1 Preferred Shares was completed on March 25, 2015.

(c) On July 3, 2015, the Company entered into a share purchase agreement with the Series F1 Investors and pursuant to which, the Company issued 9,916,601 shares of Series F1 Preferred Shares at a price of US$20.1682 per share with total consideration of US$200,000,000 (equivalent to approximately RMB1,246,240,000). The issuance of the Series F1 Preferred Shares was completed on July 3, 2015.

(d) On August 24, 2017, the Company entered into a share purchase agreement with the Series F1 Investor and pursuant to which, the Company issued 495,830 shares of Series F1 Preferred Shares at a price of US$20.1682 per share with total consideration of US$10,000,000 (equivalent to approximately RMB67,573,000). The issuance of the Series F1 Preferred Shares was completed on August 24, 2017.

(e) Pursuant to the shareholders' resolution passed on February 27, 2015, 416,706 shares of Series A Preferred Shares and 341,614 shares of Series B Preferred Shares were converted to Class B ordinary shares.

(f) Pursuant to the shareholders' resolution passed on February 27, 2015, 4,507,719 shares of share options and 410,466 shares of RSUs were exercised.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27 Other reserves

Group

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	Capital reserve	Other reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	1,589,813	709,236	203,479	12,007	4,705	2,519,240
Issuance of ordinary shares	(11,907)	—	—	—	—	(11,907)
Appropriation to statutory reserves (Note (a))	—	—	60,067	—	—	60,067
Employees share-based compensation scheme —value of employee services (Note 29)	621,644	—	—	—	—	621,644
Share of other comprehensive income of investments accounted for using the equity method (Note 12b)	—	—	—	—	59,930	59,930
Share of other reserves of investments accounted for using the equity method (Note 12b)	—	—	—	24,532	—	24,532
Currency translation differences (Note (b))	—	(5,577,452)	—	—	—	(5,577,452)
At December 31, 2015	2,199,550	(4,868,216)	263,546	36,539	64,635	(2,303,946)

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	Capital reserve	Other reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	2,199,550	(4,868,216)	263,546	36,539	64,635	(2,303,946)
Issuance of ordinary shares	(5,151)	—	—	—	—	(5,151)
Appropriation to statutory reserves (Note (a))	—	—	215,184	—	—	215,184
Employees share-based compensation scheme: —value of employee services (Note 29)	813,860	—	—	—	—	813,860
Share of other comprehensive income of investments accounted for using the equity method (Note 12b)	—	—	—	—	32,663	32,663
Share of other reserves of investments accounted for using the equity method (Note 12b)	—	—	—	27,563	—	27,563
Transfer to profit or loss from losing significant influence in an associate	—	—	—	—	(1,991)	(1,991)
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	(64,140)	—	(64,140)
Currency translation differences (Note (b))	—	(6,838,397)	—	—	—	(6,838,397)
At December 31, 2016	3,008,259	(11,706,613)	478,730	(38)	95,307	(8,124,355)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27 Other reserves—continued

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	Capital reserve	Other reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	3,008,259	(11,706,613)	478,730	(38)	95,307	(8,124,355)
Appropriation to statutory reserves (Note (a))	—	—	326,450	—	—	326,450
Employees share-based compensation scheme: —value of employee services (Note 29)	807,894	—	—	—	—	807,894
Share of other comprehensive loss of investments accounted for using the equity method (Note 12b)	—	—	—	—	(22,783)	(22,783)
Share of other reserves in capital of investments accounted for using the equity method (Note 12b)	—	—	—	33,539	—	33,539
Currency translation differences (Note (b))	—	7,926,675	—	—	—	7,926,675
At December 31, 2017	3,816,153	(3,779,938)	805,180	33,501	72,524	947,420

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 29 for detail.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27 Other reserves—continued

Company

	Share premium	Share-based compensation reserve	Currency translation differences	Capital reserve	Other reserves	Subtotal	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	656,716	1,589,813	674,813	654	399	2,922,395	(84,814,584)	(81,892,189)
Issuance of ordinary shares	15,474	(11,907)	—	—	—	3,567	—	3,567
Conversion of Preferred Shares to ordinary shares	65,419	—	—	—	—	65,419	—	65,419
Employees share-based compensation scheme —value of employee services (Note 29)	—	621,644	—	—	—	621,644	—	621,644
Share of other comprehensive income of investments accounted for using the equity method	—	—	—	—	8,468	8,468	—	8,468
Share of other reserves of investments accounted for using the equity method	—	—	—	5,624	—	5,624	—	5,624
Currency translation differences (Note (a))	—	—	(5,455,124)	—	—	(5,455,124)	—	(5,455,124)
Loss for the year	—	—	—	—	—	—	(8,738,650)	(8,738,650)
At December 31, 2015	737,609	2,199,550	(4,780,311)	6,278	8,867	(1,828,007)	(93,553,234)	(95,381,241)

	Share premium	Share-based compensation reserve	Currency translation differences	Capital reserve	Other reserves	Subtotal	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	737,609	2,199,550	(4,780,311)	6,278	8,867	(1,828,007)	(93,553,234)	(95,381,241)
Issuance of ordinary shares	5,151	(5,151)	—	—	—	—	—	—
Employees share-based compensation scheme —value of employee services (Note 29)	—	813,860	—	—	—	813,860	—	813,860
Share of other comprehensive income of investments accounted for using the equity method	—	—	—	—	7,599	7,599	—	7,599
Share of other reserves of investments accounted for using the equity method	—	—	—	7,384	—	7,384	—	7,384
Currency translation differences (Note (a))	—	—	(6,769,135)	—	—	(6,769,135)	—	(6,769,135)
Loss for the year	—	—	—	—	—	—	(2,666,742)	(2,666,742)
At December 31, 2016	742,760	3,008,259	(11,549,446)	13,662	16,466	(7,768,299)	(96,219,976)	(103,988,275)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

27 Other reserves—continued

	Share premium	Share-based compensation reserve	Currency translation differences	Capital reserve	Other reserves	Subtotal	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2017	742,760	3,008,259	(11,549,446)	13,662	16,466	(7,768,299)	(96,219,976)	(103,988,275)
Employees share-based compensation scheme —value of employee services (Note 29)	—	807,894	—	—	—	807,894	—	807,894
Share of other comprehensive loss of investments accounted for using the equity method	—	—	—	—	(7,074)	(7,074)	—	(7,074)
Share of other reserves of investments accounted for using the equity method	—	—	—	12,288	—	12,288	—	12,288
Currency translation differences (Note (a))	—	—	8,054,273	—	—	8,054,273	—	8,054,273
Loss for the year	—	—	—	—	—	—	(54,201,511)	(54,201,511)
At December 31, 2017	742,760	3,816,153	(3,495,173)	25,950	9,392	1,099,082	(150,421,487)	(149,322,405)

Notes:

(a) Foreign Currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

28 Dividends

No dividends have been paid or declared by the Company during each of the years ended December 31, 2015, 2016 and 2017.

29 Share-based payments

On May 5, 2011, the board of directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("2011 Plan") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the board of directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 of Class B ordinary shares. The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superceded in its entirety as the "2012 Employee Stock Incentive Plan" ("**[REDACTED]** ESOP"). The purpose of **[REDACTED]** ESOP is same as the 2011 Plan. The **[REDACTED]** ESOP is valid and effective for 10 years from the approval of the board of directors. Through **[REDACTED]** ESOP, the Company may grant equity-based incentive up to 45,905,172 of Class B ordinary shares initially. The aggregate number of reserved Class B ordinary shares approved was 251,307,455 as of December 31, 2015, 2016 and 2017, respectively. The **[REDACTED]** ESOP permits the awards of options and RSUs.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29 Share-based payments—continued

Share options granted to employees

The share options have graded vesting terms, and vest in different schedules from the grant date over 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months; For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date; For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively; For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

The options may be exercised at any time and from time to time only after the closing of the **[REDACTED]** or upon the approval of board of directors for all or any portion of the share options that have become vested.

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US Dollar)
Outstanding as of January 1, 2015	146,847,659	0.45
Granted during the year	12,085,083	3.32
Forfeited during the year	(3,537,630)	2.30
Exercised during the year	(4,507,719)	0.14
Outstanding as of December 31, 2015	150,887,393	0.65
Exercisable as of December 31, 2015	119,776,247	0.14
Outstanding as of January 1, 2016	150,887,393	0.65
Granted during the year	17,343,935	3.44
Forfeited during the year	(5,399,568)	2.73
Outstanding as of December 31, 2016	162,831,760	0.88
Exercisable as of December 31, 2016	132,535,397	0.27
Outstanding as of January 1, 2017	162,831,760	0.88
Granted during the year	31,940,400	2.26
Forfeited during the year	(5,016,849)	3.07
Outstanding as of December 31, 2017	189,755,311	1.05
Exercisable as of December 31, 2017	146,410,089	0.37

The weighted-average remaining contract life for outstanding shares was 6.19 years, 5.55 years and 5.17 years as of December 31, 2015, 2016 and 2017, respectively.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29 Share-based payments—continued

Share options granted to employees—continued

Fair value of share options

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31,		
	2015	2016	2017
Fair value per share	12.39-13.55	13.58-13.88	13.93-22.25
Exercise price	0-3.44	3.44	0-3.44
Risk-free interest rate	2.33%-3.08%	2.15%-3.18%	2.88%-3.22%
Dividend yield	—	—	—
Expected volatility	44.50%-44.80%	44.30%-44.90%	42.70%-44.20%
Expected terms	10 years	10 years	10 years

The weighted-average fair value of granted shares was US$10.35, US$10.78 and US$16.33, per share for the years ended December 31, 2015, 2016 and 2017, respectively.

RSUs granted to employees

The Company also granted RSUs to the Company's employees under **[REDACTED]** ESOP. The RSUs granted would vest on the second anniversary from the grant date, and in equal tranches over the remaining years of total vesting period as four or five years, on condition that employees remain in service without any performance requirements.

The RSUs may be settled at any time and from time to time only after the closing of the **[REDACTED]** or upon the approval of board of directors for all or any portion of the RSUs that have become vested.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29 Share-based payments—continued

RSUs granted to employees—continued

Movements in the number of RSUs granted to the Company's employees and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU
Outstanding as of January 1, 2015	45,029,602	3.27
Granted during the year	4,500,000	13.44
Forfeited during the year	(200,000)	0.75
Exercised during the year	(4,190,599)	1.06
Outstanding as of December 31, 2015	45,139,003	4.50
Vested as of December 31, 2015	12,894,123	2.42
Outstanding as of January 1, 2016	45,139,003	4.50
Granted during the year	—	—
Forfeited during the year	(264,000)	2.93
Exercised during the year	(3,780,133)	0.93
Outstanding as of December 31, 2016	41,094,870	4.84
Vested as of December 31, 2016	22,169,185	3.26
Outstanding as of January 1, 2017	41,094,870	4.84
Granted during the year	500,000	14.73
Forfeited during the year	(17,102,123)	7.85
Outstanding as of December 31, 2017	24,492,747	2.94
Vested as of December 31, 2017	22,209,185	2.46

The weighted-average remaining contract life for outstanding RSUs was 7.82 years, 6.90 years and 5.48 years as of December 31, 2015, 2016 and 2017, respectively.

The Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Group with best estimate.

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statements for share-based awards granted to the Group's employees are RMB621,644,000, RMB813,860,000 and RMB807,894,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

Employee fund

On August 31, 2014, the board of directors of the Company approved the establishment of the Xiaomi Development Fund ("Employee Fund") with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

29 Share-based payments—continued

Employee fund—continued

decide to resign from the Group within 5 years from the investment date (the "Lockup Period"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. Thereafter when the employees decide to resign after Lockup Period, the employees can demand the Company to buy back the shares at fair value. Accordingly, the Group granted compound financial instruments to its employees and accounted for it as equity-settled share-based payments and cash-settled share-based payments.

The total expenses recognized in the consolidated income statements for the Employee Fund granted to the Group's employees are RMB69,098,000, RMB57,370,000 and RMB101,261,000 for the years ended December 31, 2015, 2016 and 2017, respectively.

30 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2015, 2016 and 2017, the carrying amounts of trade payables were primarily denominated in RMB.

Trade payables and their aging analysis based on invoice date are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Up to 3 months	12,586,016	15,590,971	32,859,302
3 to 6 months	469,059	690,100	936,690
6 months to 1 year	786,894	606,043	180,060
1 to 2 years	383,292	687,632	22,525
Over 2 years	279	2,956	4,754
	14,225,540	17,577,702	34,003,331

31 Other payables and accruals

Group

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Amounts collected for third parties	6,304	115,740	1,056,228
Payroll and welfare payables	264,387	403,872	694,887
Deposits payable	160,225	259,206	678,472
Employee fund (Note 29)	381,360	409,771	469,930
Accrual expenses	111,064	159,284	373,034
Payables for construction cost	—	142,520	241,881
Payables for investments	120,216	106,737	151,712
Loans from related parties (Note (a))	31,184	50,873	51,336
Other taxes payables	29,838	41,870	59,431
Others	170,490	186,394	447,068
	1,275,068	1,876,267	4,223,979

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

31 Other payables and accruals—continued

Company

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Amount due to subsidiaries	820,138	849,098	893,497
Other payables and accruals	225,676	269,066	345,209
	1,045,814	1,118,164	1,238,706

Note (a): The loans from related parties were unsecured, repayable on demand and carry interest rate at the ceiling of 1.83% per annum.

As of December 31, 2015, 2016 and 2017, the amount due to subsidiaries were repayable on demand. The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values at each of the reporting dates.

32 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

33 Borrowings

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Included in non-current liabilities			
Asset-backed securities (Note (a))	—	390,000	2,400,105
Fund raised through trusts (Note (b))	—	—	400,000
Secured borrowings (Note (c))	—	—	714,107
Unsecured borrowings (Note (e))	3,246,800	—	3,737,100
	3,246,800	390,000	7,251,312
Included in current liabilities			
Pledged borrowings (Note (d))	—	300,000	729,404
Asset-backed securities (Note (a))	—	—	1,491,147
Fund raised through trusts (Note (b))	—	—	1,170,250
Unsecured borrowings (Note (e))	—	3,468,500	160,000
	—	3,768,500	3,550,801

Notes:

(a) The Group has securitised certain loan receivables and completed several rounds of issuance of its asset-backed securities ("ABS") during the Track Record Period.

During the year ended December 31, 2016, the total issuance amount was RMB500,000,000 of which RMB390,000,000 represented senior tranche while RMB110,000,000 represented subordinate tranches which were fully acquired by the Group. These ABS bore interest at 4.2%-4.5% per annum in 2016. ABS amounting to RMB269,293,000 was repaid in 2017.

During the year ended December 31, 2017, the total issuance amount was RMB4,800,000,000 of which RMB3,944,000,000 represented senior tranche while RMB856,000,000 represented subordinate tranches which were fully acquired by the Group and RMB166,421,000 was repaid by the Group. These ABS bore interest at 5.3%-8.8% per annum in 2017. ABS amounting to RMB1,371,579,000 of senior tranches will mature in 2018.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts during the year ended December 31, 2017. The total issuance amount was RMB1,170,250,000. These borrowings bore interest at 5.2%-6.2% per annum in

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

33 Borrowings—continued

2017. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The borrowings will mature in 2018.

During the year ended December 31, 2017, the total issuance amount was RMB500,000,000 of which RMB400,000,000 represented senior tranche while RMB100,000,000 represented subordinate tranches which were fully acquired by the Group. These funds bore interest at 9.0% per annum in 2017. The securities will mature in 2019.

(c) As of December 31, 2017, RMB714,107,000 of long-term borrowings were secured by construction in progress and land use rights amounted to approximately RMB3,579,363,000. The interest rate of these borrowings was 4.655%-4.900% per annum.

(d) During the year ended December 31, 2016, the Group had short-term borrowings from Bank of Ningbo amounted to RMB350,000,000. The interest rate of these borrowings was 4.785% per annum.

As of December 31, 2016, RMB50,000,000 had been repaid, and the remaining borrowings were collateralized by a pledge of bank deposits of US$90,000,000 (equivalent to approximately RMB624,330,000), which was recorded as "restricted cash" in the consolidated balance sheets. The Group repaid the remaining borrowings in 2017 and obtained new short-term borrowings from Bank of Ningbo amounting to RMB350,000,000. The interest rate of these borrowings was 4.785% per annum.

As of December 31, 2017, RMB350,000,000 of short-term borrowings were collateralized by a pledge of bank deposits of US$79,000,000 (equivalent to approximately RMB516,202,000), which was recorded as "restricted cash" in the consolidated balance sheets. US$58,064,000 (equivalent to approximately RMB379,404,000) of short-term borrowings were collateralized by a pledge of bank deposits of RMB397,000,000, which was recorded as "restricted cash" in the consolidated balance sheets. The interest rate of these borrowings was 2.218%-4.785% per annum.

(e) The Group entered into a three-year bank loan agreement on November 1, 2014. The available commitment is US$1,000,000,000 (equivalent to approximately RMB6,119,000,000) including US$500,000,000 (equivalent to approximately RMB3,059,500,000) term loan and US$500,000,000 (equivalent to approximately RMB3,059,500,000) revolving loan. The Company drew down US$500,000,000 (equivalent to approximately RMB3,246,800,000) term loan on July 13, 2015 at London Inter Bank Offered Rate ("LIBOR") plus 2.325% per annum. The Group repaid the loan on August 2, 2017. The borrowings are unsecured and principally used for operation of the Group.

The Group entered into another three-year facility bank loan agreement on July 26, 2017. The available commitment is US$1,000,000,000(equivalent to approximately RMB6,534,200,000) including US$500,000,000 (equivalent to approximately RMB3,267,100,000) term loan and US$500,000,000 (equivalent to approximately RMB3,267,100,000) revolving loan. The Group drew down US$500,000,000 (equivalent to approximately RMB3,267,100,000) term loan on August 2, 2017 at LIBOR plus 2.15% per annum. The Group shall repay the loan on July 25, 2020.

The Group drew down RMB500,000,000 borrowings from Bank of Beijing on March 1, 2017. The Group repaid RMB10,000,000 to Bank of Beijing in the year ended December 31, 2017. RMB20,000,000 of these outstanding borrowings should be repaid by the Group in 2018, while remaining RMB470,000,000 of these outstanding borrowings should be repaid by the Group by March 1, 2022.

In addition, the Group drew down RMB450,000,000 borrowings from and repaid RMB310,000,000 to China Resources Bank of Zhuhai Co., Ltd. in the year ended December 31, 2017. All these outstanding borrowings should be repaid by the Group in 2018.

For the years ended December 31, 2015, 2016 and 2017, the annual interest rate of the interest-bearing liabilities ranges from 2.56% to 2.61%, 2.95% to 4.79% and 2.22% to 9.00% per annum, respectively.

34 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary difference.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34 Deferred income taxes—continued

The amount of offsetting deferred income tax assets and liabilities is RMB154,455,000, RMB41,751,000 and RMB129,813,000 for the years ended 2015, 2016 and 2017, respectively. The analysis of deferred income tax assets and liabilities is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred income tax assets:			
—to be recovered after 12 months	8,314	90,656	221,133
—to be recovered within 12 months	540,285	397,398	500,256
	548,599	488,054	721,389
Deferred income tax liabilities:			
—to be settled after 12 months	(257,182)	(499,245)	(1,147,770)
—to be settled within 12 months	(837)	(795)	(694)
	(258,019)	(500,040)	(1,148,464)

The gross movement on the deferred income tax assets is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At January 1,	164,819	548,599	488,054
Credited/(debited) to the consolidated income statements	383,780	(60,545)	233,335
At December 31,	548,599	488,054	721,389

The gross movement on the deferred income tax liabilities is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At January 1,	(9,580)	(258,019)	(500,040)
Debited to the consolidated income statements	(248,439)	(242,021)	(648,424)
At December 31,	(258,019)	(500,040)	(1,148,464)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34 Deferred income taxes—continued

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions	Provision for impairment of inventories	Depreciation of property and amortization of intangible assets	Tax losses	Fair value changes of financial assets	Provision for impairment of loan receivables	Unrealized gain on intra-group transactions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2015	113,493	38,932	6,280	—	—	—	—	6,114	164,819
Credited to consolidated income statement	112,989	161,376	2,375	105,576	—	—	—	1,464	383,780
At December 31, 2015	226,482	200,308	8,655	105,576	—	—	—	7,578	548,599
At January 1, 2016	226,482	200,308	8,655	105,576	—	—	—	7,578	548,599
Credited/(debited) to consolidated income statement	49,553	(133,586)	84,819	(105,576)	24,643	1,015	5,540	13,047	(60,545)
At December 31, 2016	276,035	66,722	93,474	—	24,643	1,015	5,540	20,625	488,054
At January 1, 2017	276,035	66,722	93,474	—	24,643	1,015	5,540	20,625	488,054
Credited/(debited) to consolidated income statement	(8,386)	81,471	(355)	62,019	31,348	40,171	39,156	(12,089)	233,335
At December 31, 2017	267,649	148,193	93,119	62,019	55,991	41,186	44,696	8,536	721,389

Note: Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

34 Deferred income taxes—continued

As of December 31, 2015, 2016 and 2017, the Group did not recognize deferred income tax assets of RMB286,970,000, RMB332,476,000 and RMB521,499,000, in respect of deductible temporary differences including cumulative tax losses amounting RMB1,296,739,000, RMB1,566,078,000 and RMB2,330,552,000, respectively, that can be carried forward against future taxable income.

Deferred income tax liabilities:

	Changes in fair value of financial assets	Business combination	Total
	RMB'000	RMB'000	RMB'000
At January 1, 2015	(5,818)	(3,762)	(9,580)
(Debited)/credited to consolidated income statement	(249,524)	1,085	(248,439)
At December 31, 2015	(255,342)	(2,677)	(258,019)
At January 1, 2016	(255,342)	(2,677)	(258,019)
(Debited)/credited to consolidated income statement	(242,858)	837	(242,021)
At December 31, 2016	(498,200)	(1,840)	(500,040)
At January 1, 2017	(498,200)	(1,840)	(500,040)
(Debited)/credited to consolidated income statement	(649,219)	795	(648,424)
At December 31, 2017	(1,147,419)	(1,045)	(1,148,464)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35 Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares. For details, please refer to below table:

		Purchase Price (US$/Share)		Number of Shares		Total Consideration	
	Date of Issuance	Before the Share Subdivision (Note (a))	After the Share Subdivision	Before the Share Subdivision	After the Share Subdivision	US$	RMB
Series A Preferred Shares	September 28, 2010	0.1000	0.0250	100,000,000	400,000,000	10,000,000	67,051,000
Series A Preferred Shares	December 21, 2010	0.1000	0.0250	2,500,000	10,000,000	250,000	1,665,000
Series B1 Preferred Shares	December 21, 2010	0.4113	0.1028	60,775,862	243,103,448	25,000,000	166,493,000
Series B2 Preferred Shares	December 21, 2010	0.5818	0.1454	4,297,283	17,189,132	2,500,000	16,650,000
Series B+ Preferred Shares	April 11, 2011	0.5818	0.1454	4,727,011	18,908,044	2,750,000	17,371,000
Series B++ Preferred Shares	August 24, 2011	0.5818	0.1454	1,031,347	4,125,388	600,000	3,834,000
Series C Preferred Shares	September 30, 2011	2.0942	0.5236	21,010,411	84,041,644	44,000,000	279,616,000
Series C+ Preferred Shares	November 10, 2011	2.0942	0.5236	1,002,765	4,011,060	2,100,000	13,299,000

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35 Convertible redeemable preferred shares—continued

		Purchase Price (US$/Share)		Number of Shares		Total Consideration	
	Date of Issuance	Before the Share Subdivision (Note (a))	After the Share Subdivision	Before the Share Subdivision	After the Share Subdivision	US$	RMB
Series C Preferred Shares	March 29, 2012	2.0942	0.5236	21,010,411	84,041,644	44,000,000	276,901,000
Series D Preferred Shares	June 22, 2012	8.1882	2.0471	13,189,777	52,759,108	108,000,000	680,835,000
Series D Preferred Shares	December 21, 2012	8.1882	2.0471	13,189,777	52,759,108	108,000,000	679,118,000
Series E1 Preferred Shares	August 5, 2013	15.0392	3.7598	5,319,419	21,277,676	80,000,000	494,139,000
Series E2 Preferred Shares	August 5, 2013	18.7614	4.6904	1,066,016	4,264,064	20,000,000	123,534,000
Series F1 Preferred Shares	December 23, 2014	NA	20.1682	NA	37,226,830	750,800,000	4,597,137,000
Series F2 Preferred Shares	December 23, 2014	NA	17.9273	NA	8,376,037	150,160,000	919,430,000
Series F1 Preferred Shares	March 25, 2015	NA	20.1682	NA	1,147,843	23,150,000	144,252,000
Series F1 Preferred Shares	July 3, 2015	NA	20.1682	NA	9,916,601	200,000,000	1,246,240,000
Series F1 Preferred Shares	August 24, 2017	NA	20.1682	NA	495,830	10,000,000	67,573,000

Note (a): Pursuant to the shareholders' resolution passed on March 14, 2014, every share of the issued convertible redeemable preferred shares is subdivided into four shares.

Note (b): Series B Preferred Shares includes Series B1 Preferred Shares, Series B2 Preferred Shares, Series B+ Preferred Shares and Series B++ Preferred Shares; Series C Preferred Shares includes Series C Preferred Shares and Series C+ Preferred Shares; Series E Preferred Shares includes Series E1 Preferred Shares and Series E2 Preferred Shares; Series F Preferred Shares includes Series F1 Preferred Shares and Series F2 Preferred Shares.

The key terms of the Preferred Shares are summarized as follows:

(a) Dividends rights

Each holder of Preferred Shares shall be entitled to receive from the Company on the preferential basis, out of funds legally available therefore, non-cumulative dividends per Preferred Share held by such holder accrued at the rate of eight percent (8%) of the applicable original issue price per annum (as adjusted for any stock dividends, combinations or splits with respect to such shares), when and if declared by the board, prior and in preference to holders of all other current or

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35 Convertible redeemable preferred shares—continued

(a) Dividends rights—continued

future class or series of shares of the Company, including the ordinary shares. No dividend, whether in cash, in property or in shares of the capital of the Company, shall be paid on or declared and set aside for any ordinary shares or any other class or series of shares of the Company unless and until all dividends have been paid in full on the Preferred Shares (on an as-converted basis).

(b) Conversion feature

The Preferred Shares shall be converted into Class B ordinary shares at the option of holders at any time after July 3, 2015, or automatically converted into Class B ordinary shares at the then effective applicable conversion price upon (i) the closing of a **[REDACTED]**, or (ii) with written consent of holders of more than fifty percent (50%) of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds (2/3) of the issued and outstanding Preferred Shares (other than Series A Preferred Shares), respectively. In the event of the automatic conversion of the Preferred Shares, the person(s) entitled to receive the Class B ordinary shares issuable upon such conversion of Preferred Shares shall not be deemed to have converted such Preferred Shares until immediately prior to the closing of such transaction.

[REDACTED] means a firm underwritten public offering of the ordinary shares or other equity securities of the Company (or as the case may be, the shares or other equity securities of the relevant entity resulting from any merger, reorganization or other arrangements made by or to the Company for the purposes of a firm underwritten public offering) on the Hong Kong Stock Exchange, New York Stock Exchange or National Association of Securities Dealers Automated Quotations ("Nasdaq") that has been registered under the applicable securities laws with the Group's valuation reaching a certain amount, or in a similar **[REDACTED]** of such shares or other equity securities in another jurisdiction which results in such shares or other equity securities trading publicly on a recognized regional or national securities exchange, provided, however, that such **[REDACTED]** satisfies the foregoing valuation requirement and that the regulatory approval of such other jurisdiction and securities exchange is reasonably similar to that of Hong Kong Stock Exchange, New York Stock Exchange or Nasdaq as mutually determined by the majority investors and the Company.

(c) Redemption feature

At any time commencing on the redemption start date of December 23, 2019, at the option of a holder of the Preferred Shares (other than Series F) or the option of the holders of a majority of the then issued and outstanding Series F Preferred Shares (on an as converted basis), the Company shall redeem all, but not less than all, of the issued and outstanding Preferred Shares held by the requesting holders as elected by such holders out of funds legally available therefore including capital.

The redemption price shall be paid by the Company to the Preferred Shares holders in amount equal to the greater of (i) and (ii) below: (i) one hundred percent (100%) of the issue price on each Preferred Share, plus an eight percent (8%) per annum compound interest of the issue price on each Preferred Share accrued during the period from the issue date of each Preferred Share until the date stated on redemption notice on which the Preferred Shares are to be redeemed, and any declared

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35 Convertible redeemable preferred shares—continued

(c) Redemption feature—continued

but unpaid dividends thereon; (ii) the fair market value of such Preferred Share, the valuation of which shall be determined through an independent appraisal performed by an appraiser selected jointly by the board and the supermajority investors, provided that such valuation shall not take into account any liquidity or minority interest discounts.

(d) Liquidation preferences

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, distributions to the members of the Company shall be made in the following manner (after satisfaction of all creditors' claims and claims that may be preferred by law):

Each holder of Preferred Shares shall be entitled to receive for each series of Preferred Shares he or it holds on the preferential basis, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of other series of Preferred Shares and ordinary shares or any other class or series of shares by reason of their ownership of such shares, the amount equal to one hundred percent (100%) of the respective applicable issue price, plus accrued or declared but unpaid dividends for holders of Series E Preferred Shares, Series D Preferred Shares, certain Series C Preferred Shares, certain Series B Preferred Shares and certain Series A Preferred Shares, respectively, or one hundred and ten percent (110%) of the respective applicable issue price, plus accrued or declared but unpaid dividends for holders of the series of Preferred Shares other than those aforementioned. If the assets and funds available for distribution shall be insufficient to permit the payment to such holders of the full preferred preference amount, the liquidation preference amount will be paid to the holders of Preferred Shares in the following order: first to holders of Series F Preferred Shares, second to holders of Series E Preferred Shares, third to holders of Series D Preferred Shares, fourth to Series C Preferred shares, fifth to Series B Preferred shares and lastly to holders of Series A Preferred Shares. After distributing or paying in full the liquidation preference amount to all of the holders of Preferred Shares, the remaining assets of the Company available for distribution to members, if any, shall be distributed to the holders of the Preferred Shares and ordinary shares on a pro rata basis, based on the number of ordinary shares then held by each holder on an as-converted basis.

The Group does not bifurcate any embedded derivatives from the host instruments and designates the entire instruments as financial liabilities at fair value through profit or loss with the changes in the fair value recorded in the consolidated income statements.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

35 Convertible redeemable preferred shares—continued

The movement of the convertible redeemable preferred shares is set out as below:

	RMB'000
At January 1, 2015	89,918,362
Issuance of Series F1 Preferred Shares	144,252
Issuance of Series F1 Preferred Shares	1,246,240
Conversion to Class B ordinary shares	(65,419)
Changes in fair value	8,759,314
Currency translation differences	5,930,120
At December 31, 2015	105,932,869
At January 1, 2016	105,932,869
Changes in fair value	2,523,309
Currency translation differences	7,345,999
At December 31, 2016	115,802,177
At January 1, 2017	115,802,177
Issuance of Series F1 Preferred Shares	89,214
Changes in fair value	54,071,603
Currency translation differences	(8,511,791)
At December 31, 2017	161,451,203

The Group has used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preferred Shares as of the dates of issuance and at the end of each reporting period.

Key valuation assumptions used to determine the fair value of Preferred Shares are as follows:

	As of December 31,		
	2015	2016	2017
Discount rate	17.00%	17.00%	17.00%
Risk-free interest rate	2.21%	2.18%	2.42%-2.61%
DLOM	20.00%	20.00%	10.00%
Volatility	39.46%	36.19%	30.76%-33.05%

Discount rate (post-tax) was estimated by weighted average cost of capital as of each valuation date. The Group estimated the risk-free interest rate based on the yield of US Government Bond with maturity life close to the **[REDACTED]** timing as of valuation date plus country risk spread. The DLOM was estimated based on the option-pricing method. Under option-pricing method, the cost of put option, which can hedge the price change before the private held share can be sold, was considered as a basis to determine the lack of marketability discount. Volatility was estimated based on annualized standard deviation of daily stock price return of comparable companies for a period from the respective valuation date and with similar span as time to expiration. Probability weight under each of the redemption feature and liquidation preferences was based on the Group's best estimates. In addition to the assumptions adopted above, the Company's projections of future performance were also factored into the determination of the fair value of Preferred Shares on each valuation date.

Changes in fair value of Preferred Shares were recorded in "fair value changes of convertible redeemable preferred shares". Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36 Cash generated from/(used in) operations

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	(7,472,511)	1,175,509	(41,829,352)
Adjustments for:			
—Depreciation of property and equipment	142,240	139,941	166,515
—Amortization of intangible assets	64,221	100,090	194,441
—Gain on disposal of property and equipment	(279)	(11,170)	(513)
—Impairment provision for trade and other receivables	30,567	42,244	16,965
—Impairment provision for loan receivables	1,025	14,173	258,470
—Impairment provision for inventories	776,989	280,045	652,560
—Interest income	(37,682)	(89,233)	(242,518)
—Interest expense	123,549	175,479	215,734
—Dividend income	(3,652)	(96,328)	(106,291)
—Share of losses of investments accounted for using the equity method	92,781	150,445	231,496
—Impairment for investments accounted for using the equity method	421,717	392,486	—
—Net gains on disposals of long-term investments measured at fair value through profit or loss	(533,516)	(29,490)	(192,008)
—Remeasurement from losing significant influence in an associate	—	119,046	—
—Gains on disposal of an investment accounted for using the equity method	—	—	(91,429)
—Fair value changes of convertible redeemable preferred shares	8,759,314	2,523,309	54,071,603
—Fair value gains on long-term investments measured at fair value through profit or loss	(2,813,353)	(2,727,283)	(6,371,098)
—Share-based compensation	690,742	871,230	909,155
—Unrealized exchange loss, net	506,528	54,291	144,265
—Investment income from short-term investments measured at fair value through profit or loss	(292,055)	(98,837)	(162,702)
—Investment income from short-term investments measured at amortized cost	(101,014)	(6,343)	(54,789)
Operating cash flows before changes in working capital			
—Increase in inventories	(777,398)	(15,204)	(8,617,146)
—Increase in trade receivables	(529,748)	(628,852)	(3,396,954)
—Increase in loan and interest receivables	(102,927)	(1,522,238)	(6,856,767)
—Decrease/(increase) in prepayments and other receivables	234,430	(1,724,448)	(6,624,612)
—Decrease/(increase) in restricted cash	364,740	57,426	(1,788,284)
—Decrease/(increase) in other non-current assets	13,437	(13,228)	—
—Increase in trade payables	1,601,403	3,352,162	15,476,486
—(Decrease)/increase in advance from customers	(1,113,169)	1,305,467	1,554,508
—Increase in warranty provision	85,424	505,416	885,170
—(Decrease)/increase in other payables and accruals	(2,435,752)	426,003	2,056,983
—Increase /(decrease) in other non-current liabilities	10,194	(7,591)	27,433
Cash (used in)/generated from operating activities	(2,293,755)	4,714,517	527,321

In the statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net book amount (Note 16)	119	38,685	1,018
Gain on disposal of property and equipment	279	11,170	513
Proceeds from disposal of property and equipment	398	49,855	1,531

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

36 Cash generated from/(used in) operations—continued

There were no material non-cash investing and financing transactions for the years ended December 31, 2015, 2016 and 2017.

Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities				
	Borrowing due within 1 year	Borrowing due after 1 year	Convertible redeemable preferred shares	Interest payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities from financing activities as of January 1, 2015	**942,326**	**3,059,500**	**89,918,362**	**12,473**	**93,932,661**
Cash flows	(942,326)	187,300	1,390,492	(67,083)	568,383
Accrued interest expenses	—	—	—	76,469	76,469
Fair value changes of convertible redeemable preferred shares	—	—	8,759,314	—	8,759,314
Foreign exchange adjustments	—	—	5,930,120	—	5,930,120
Convert to Class B ordinary shares	—	—	(65,419)	—	(65,419)
Liabilities from financing activities as of December 31, 2015	**—**	**3,246,800**	**105,932,869**	**21,859**	**109,201,528**
Cash flows	300,000	390,000	—	(140,774)	549,226
Accrued interest expenses	—	—	—	122,404	122,404
Fair value changes of convertible redeemable preferred shares	—	—	2,523,309	—	2,523,309
Foreign exchange adjustments	221,700	—	7,345,999	—	7,567,699
Reclassification from non-current to current	3,246,800	(3,246,800)	—	—	—
Liabilities from financing activities as of December 31, 2016	**3,768,500**	**390,000**	**115,802,177**	**3,489**	**119,964,166**
Cash flows	(338,406)	6,982,019	67,573	(146,378)	6,564,808
Accrued interest expenses	—	—	—	148,631	148,631
Fair value changes of convertible redeemable preferred shares	—	—	54,071,603	—	54,071,603
Foreign exchange adjustments	—	—	(8,511,791)	—	(8,511,791)
Reclassification from non-current to current	120,707	(120,707)	—	—	—
Others	—	—	21,641	—	21,641
Liabilities from financing activities as of December 31, 2017	**3,550,801**	**7,251,312**	**161,451,203**	**5,742**	**172,259,058**

37 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2015, 2016 and 2017.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

38 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Property and equipment	75,351	273,789	1,486,029
Intangible assets	239,866	159,280	112,888
Investments	349,027	305,281	198,788
	664,244	738,350	1,797,705

(b) Operating lease commitments

The Group leases office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Not later than 1 year	72,409	273,145	258,230
Later than 1 year and not later than 5 years	93,747	411,999	280,613
	166,156	685,144	538,843

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

Save as disclosed in Note 23 and Note 31, the following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39 Related party transactions—continued

(a) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the Track Record Period.

Company	Relationship
Beijing Kingsoft Cloud Technology Co., Ltd.	Associate of the Group
Beijing Kingsoft Internet Security Software Co., Ltd. (Note (b))	Associate of Lei Jun
Beijing Cheetah Mobile Technology Co., Ltd. (Note (b))	Associate of Lei Jun
Suzhou Industrial Park Shunwei Technology Venture Capital Partnership (Limited Partnership)	Controlled by a director
Zhuhai Xishanju Mobile Technology Co., Ltd.	Associate of the Group
Qingdao Yeelink Information Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Fengmi Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Miiiw Technology Co., Ltd. (Note (a))	Associate of the Group
Nanjing Jiqidao Smart Technology Co., Ltd.	Associate of the Group
Shanghai Chuangmi Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Chunmi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Xiaoxun Technology Co., Ltd. (Note (a))	Associate of the Group
Wuxi Roidmi Co., Ltd. (Note (a))	Associate of the Group
Beijing Yuemi Technology Co., Ltd.	Associate of the Group
Ximalaya Inc. (Note (a))	Associate of the Group
Beijing Roborock Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Runmi Technology Co., Ltd. (Note (a))	Associate of the Group
Banya Information Technology (Shanghai) Co., Ltd. (Note (a))	Associate of the Group
Puppet Planet (Beijing) Technology Co., Ltd. (Note (a))	Associate of the Group
Sichuan Xinwang Bank Co., Ltd.	Associate of the Group
Dongguan Powerise Fashion Technology Co., Ltd. (Note (a))	Associate of the Group
Turok Steinhardt (Beijing) Optical Technology Co., Ltd. (Note (a))	Associate of the Group
Qiji (Xiamen) Technology Co., Ltd. (Note (a))	Associate of the Group
Tianjin Hualai Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen ShowmePlus Technology Co., Ltd. (Note (a))	Associate of the Group
Soocare (Shenzhen) Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing MADV Technology Co., Ltd. (Note (a))	Associate of the Group
Ningxia Raycom Technology Development Co., Ltd. (Note (a))	Associate of the Group
Longcheer Technology (Huizhou) Co., Ltd.	Associate of the Group
ChingMi (Beijing) Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Longcheer Technology Co., Ltd.	Associate of the Group
Longcheer Communication Technology (HK) Co., Ltd.	Associate of the Group
Beijing SmartMi Technology Co., Ltd. (Note (a))	Associate of the Group
Dongguan Lanmi Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing iQIYI Science&Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Particle Information Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Lumi Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing SmartMi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Particle Technology Co., Ltd. (Note (a))	Associate of the Group
Anhui Huami Information Technology Co., Ltd. (Note (a))	Associate of the Group
Jiangsu Zimi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Ninebot Limited (Note (a))	Associate of the Group
Foshan Viomi Technology Co., Ltd. (Note (a))	Associate of the Group
Zimi Communication Technology (Jiangsu) Co., Ltd. (Note (a))	Associate of the Group

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39 Related party transactions—continued

(a) Names and relationships with related parties—continued

Company	Relationship
Shanghai Ant Technology Inc.	Associate of the Group
Shenzhen Pineapple Games Co., Ltd. (Note (a))	Associate of the Group
FiMi United Technology Limited (Note (a))	Associate of the Group
Shanghai Pineapple Entertainment Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai iQIYI Culture Media Co., Ltd. (Note (a))	Associate of the Group
21Vianet Group Inc. (Note 12(b))	Associate of the Group
Eryihao Acoustics Science&Technology (Shenzhen) Co., Ltd.	Associate of the Group
1 More Acoustics Science&Technology (Shenzhen) Co., Ltd.	Associate of the Group
Kunshan Longcheer Investment Management Co., Ltd.	Associate of the Group
Viomi Technology Co., Ltd.	Associate of the Group

Note:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

(b) Since March 13, 2018, the Group has ceased to be a related party with Beijing Cheetah Mobile Technology and Beijing Kingsoft Internet Security Software Co., Ltd., subsidiaries of Cheetah Mobile Inc. as Lei Jun resigned as the Chairman and a member of the Board of Cheetah Mobile Inc.

(b) Significant transactions with related parties

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(i) Sales of goods and services			
Associates of the Group	44,221	555,981	704,476
Associates of Lei Jun	39,048	58,948	61,456
	83,269	614,929	765,932
(ii) Purchases of goods and services			
Associates of the Group	4,400,004	7,147,134	13,254,277
Associates of Lei Jun	4	958	686
	4,400,008	7,148,092	13,254,963

(c) Year end balances with related parties

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(i) Trade receivables from related parties			
Associates of the Group	8,127	136,994	162,901
Associates of Lei Jun	5,050	11,322	25,715
	13,177	148,316	188,616
(ii) Trade payables to related parties			
Associates of the Group	791,801	2,077,027	3,204,190
Associates of Lei Jun	—	—	4,572
	791,801	2,077,027	3,208,762

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39 Related party transactions—continued

(c) Year end balances with related parties—continued

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
(iii) Other receivables from related parties			
Associates of the Group	81,120	103,388	177,831
Controlled by a director	28,989	41,989	4,000
	110,109	145,377	181,831
(iv) Other payables to related parties			
Associates of the Group	18,659	104,440	416,348
Associates of Lei Jun	—	7,671	8,202
	18,659	112,111	424,550
(v) Prepayments			
Associates of the Group	9,630	40,560	67,336
	9,630	40,560	67,336

All the balances with related parties above were unsecured, interest bearing and repayable within one year.

(d) Loans to related parties

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Loans to associates:			
At the beginning of the year	—	76,463	74,329
Loans advanced	82,900	98,092	1,500
Loans repaid	(7,217)	(102,953)	(14,000)
Interest charged	887	5,732	3,481
Interest received	(107)	(3,947)	(1,845)
Currency translation differences	—	942	(1,322)
At the end of the year	76,463	74,329	62,143

(e) Loans from related parties

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Loans from associates:			
At the beginning of the year	—	31,184	50,873
Loans received	31,156	19,425	—
Loans repaid	—	—	—
Interest charged	28	264	463
Interest paid	—	—	—
At the end of the year	31,184	50,873	51,336

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION—continued

39 Related party transactions—continued

(f) Key management compensation

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries	7,112	3,774	6,113
Discretionary bonuses	1,577	3,572	9,550
Share-based compensation	154,841	314,575	186,095
Employer's contribution to pension schedule	428	825	1,067
	163,958	322,746	202,825

40 Events after the reporting period

On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or **[REDACTED]** Class B ordinary shares following the share subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company.

III Subsequent Financial Statements

No audited financial statements have been prepared by the Company or any of the Companies now comprising the Group in respect of any period subsequent to December 31, 2017 and up to the date of this report.

Save as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to December 31, 2017.

The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the Company's reporting accountant, as set out in Appendix I, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the Accountant's Report set out in Appendix I.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the **[REDACTED]** on the consolidated net tangible assets attributable to the shareholders as of December 31, 2017 as if the **[REDACTED]** had taken place on that date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the group had the **[REDACTED]** been completed as of December 31, 2017 or at any future dates.

	Unadjusted audited consolidated net tangible liabilities of the Group attributable to the Owners of the Company as of December 31, 2017[(1)]	Estimated [REDACTED] from the [REDACTED][(2)]	Estimated impact related to the change of terms of convertible redeemable preferred shares upon [REDACTED][(3)]	Unaudited pro forma adjusted net tangible assets of the Group attributable to the Owners of the Company	Unaudited pro forma adjusted net tangible assets per Share[(4)(5)]	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an **[REDACTED]** of **[REDACTED]** per Share	(129,546,713)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**
Based on an **[REDACTED]** of **[REDACTED]** per Share	(129,546,713)	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**	**[REDACTED]**

Note

(1) The unadjusted audited consolidated net tangible liabilities of the Group attributable to the owners of the Company as of December 31, 2017 is extracted from the Accountant's Report as set out in Appendix I, which is based on the audited consolidated net liabilities of the Group attributable to the owners of the Company as of December 31, 2017 of approximately RMB127,272,361,000 with an adjustment for the intangible assets as of December 31, 2017 of approximately RMB2,274,352,000.

(2) The estimated **[REDACTED]** to be received by the Company from the **[REDACTED]** are based on the indicative **[REDACTED]** of **[REDACTED]** and HK$**[REDACTED]** per Share, respectively, after deduction of the **[REDACTED]** fees and other related expenses payable by the Company, and does not take into account any shares which may be [[sold] pursuant to the exercise of the **[REDACTED]**] or upon the exercise of the options granted under the **[REDACTED]** ESOP or any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors.

(3) Upon the **[REDACTED]** and the completion of the **[REDACTED]**, all the Preferred Shares will be automatically converted into our Class B Shares. These Preferred Shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the owners of the Company will be increased by RMB**[REDACTED]**, being the carrying amounts of the Preferred Shares as of December 31, 2017.

(4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that **[REDACTED]** Shares were in issue (including the 63,959,619 Class B Shares (or **[REDACTED]** Class B Shares following the Share Subdivision) issued to Smart Mobile Holdings Limited on April 2, 2018, the completion of the conversion of Preferred Shares into Class B Shares and the completion of the Share Subdivision) assuming that the **[REDACTED]** has been completed on December 31, 2017 but does not take into account any shares which may be [[sold] pursuant to the exercise of the **[REDACTED]** or] upon the exercise of the options granted under the **[REDACTED]** ESOP or any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK$[●]. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to December 31, 2017.

[REDACTED]

[REDACTED]

[REDACTED]

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on **[REDACTED]** and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix [●] in the section headed "Documents available for inspection."

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on **[REDACTED]** and include provisions to the following effect:

2.1 Classes of Shares

(a) *Share capital*

The share capital of the Company consists of Class A Shares and Class B Shares. The capital of the Company at the date of adoption of the Articles is US$[●] divided into [●] Class A Shares of US$[●] each and [●] Class B Shares of US$[●] each.

(b) *Weighted voting rights*

Subject to the provisions of the Articles of Association, the holders of Class A Shares and Class B Shares shall at all times vote together as one class on all resolutions submitted to a vote by the members. On a poll, each Class A Share shall entitle its holder to ten votes and each Class B Share shall entitle its holder to one vote, provided that each Class A Share and each Class B Share shall entitle its holder to one vote on a poll at a general meeting in respect of a resolution on the following matters:

(i) any amendment to the Memorandum of Association or Articles of Association, including the variation of the rights attached to any class of shares;

(ii) the appointment, election or removal of any independent non-executive Director;

(iii) the appointment or removal of the auditors; or

(iv) the voluntary liquidation or winding-up of the Company.

Notwithstanding the foregoing, where a holder of Class A Shares is permitted by the Exchange from time to time to exercise more than one vote per share when voting on a resolution to amend the Memorandum of Association or the Articles of Association, any holder of Class A Shares may elect to exercise such number of votes per share as is permitted by the Exchange, up to the maximum number of votes attached to each Class A Share as set out in the Articles of Association.

The Company shall not take any action (including the issue or repurchase of shares of any class) that would result in (i) the aggregate number of votes entitled to be cast by all holders of Class B Shares present at a general meeting to be less than 10% of the votes entitled to be cast by all members at a general meeting; or (ii) an increase in the proportion of Class A Shares to the total number of shares in issue.

(c) *Restrictions on issue of Shares with weighted voting rights*

No further Class A Shares shall be issued by the Company, except with the approval of the Exchange and pursuant to (i) an offer to subscribe for shares in the Company made to all the members of the Company pro rata (apart from fractional entitlements) to their existing holdings; (ii) a pro rata issue of shares to all the members of the Company by way of scrip dividends; or (iii) pursuant to a share subdivision or other similar capital reorganization, provided that each member of the Company shall be entitled to subscribe for or be issued shares in the same class as the shares then held by him, and further provided that the proposed allotment or issuance will not result in an increase in the proportion of Class A Shares in issue, so that:

(i) if, under a pro rata offer, any holder of Class A Shares does not take up any part of the Class A Shares or the rights thereto offered to him, such untaken shares or rights shall only be transferred to another person on the basis that such transferred rights will only entitle the transferee to an equivalent number of Class B Shares; and

(ii) to the extent that that rights to Class B Shares in a pro rata offer are not taken up in their entirety, the number of Class A Shares that shall be allotted, issued or granted in such pro rata offer shall be reduced proportionately.

(d) *Reduction of Shares with weighted voting rights on repurchase of Shares*

In the event the Company reduces the number of Class B Shares in issue through a purchase of its own shares, the holders of Class A Shares shall reduce their voting rights in the Company proportionately, whether through a conversion of a portion of their Class A Shares or otherwise, if the reduction in the number of Class B Shares in issue would otherwise result in an increase in the proportion of Class A Shares to the total number of shares in issue.

(e) *Prohibition on variation of terms of shares with weighted voting rights*

The Company shall not vary the rights of the Class A Shares so as to increase the number of votes to which each Class A Share is entitled.

(f) *Qualification of holders of shares with weighted voting rights*

Class A Shares shall only be held by a Director or a vehicle wholly-owned or controlled by a Director. Subject to the Listing Rules or other applicable laws and regulations, each Class A Share shall be automatically converted into one Class B Share upon the occurrence of any of the following events:

(i) the death of the holder of such Class A Share (or where the holder is a vehicle owned or controlled by a Director, the death of that Director);

(ii) the holder of such Class A Share ceasing to be a Director or a vehicle owned or controlled by a Director for any reason;

(iii) the holder of such Class A Share (or, where the holder is a vehicle owned or controlled by a Director, the Director owning or controlling such vehicle) being deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a Director;

(iv) the holder of such Class A Share (or, where the holder is a vehicle owned or controlled by a Director, the Director owning or controlling such vehicle) being deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules; or

(v) the transfer of the legal title, beneficial ownership or economic interest of, or the voting rights attached to, such Class A Share to any person, other than (A) the grant of any encumbrance, lien or mortgage over such share which does not result in the transfer of the legal title or beneficial ownership of, or the voting rights attached to, such share, until the same is transferred upon the enforcement of such encumbrance, lien or mortgage; and (B) a transfer by a Director to a vehicle owned or controlled by him, or by a vehicle owned or controlled by a Director to such Director or another vehicle owned or controlled by him.

(g) *Cessation of weighted voting rights*

All of the Class A Shares in the authorized share capital shall be automatically re-designated into Class B Shares in the event all of the Class A Shares in issue are converted into Class B Shares, and no further Class A Shares shall be issued by the Company.

(h) *Shares to rank pari passu*

Save and except for the rights, preferences, privileges and restrictions set out in this paragraph 2.1, the Class A Shares and the Class B Shares shall rank pari passu in all other respects and shall have the same rights, preferences, privileges and restrictions.

2.2 Directors

(a) *Power to allot and issue Shares*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine, provided that any issue of shares not made to all the members of the Company pro rata to their existing shareholdings (apart from fractional entitlements) shall require the approval of the Board and Lei Jun (or his duly appointed alternate Director) so long as Lei Jun is a Director of the Company.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of traveling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The number of Directors shall not be less than two, and the board of Directors shall consist of not less than one-third and less than one-half of independent non-executive Directors. The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

A Director need not hold any qualification shares. No Director shall be required to vacate office or be ineligible for re-election or re-appointment as a Director and no person shall be ineligible for appointment as a Director by reason only of his having attained any particular age.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association; or

(vi) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. A quorum of a duly constituted meeting of the Directors shall have no less than two Directors, one of which shall be the Company's founder, Lei Jun (or his duly appointed alternate Director), so long as he is a Director of the Company. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman Companies Law, be varied or abrogated only with (in addition to a special resolution to amend the Memorandum or the Articles) the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a resolution passed at a separate meeting of the holders of the shares of that class by members holding shares representing three-fourths in nominal value of the shares present in person or by proxy and voting at such meeting. For the avoidance of doubt, (a) any change to the composition of the board of Directors set out in the Articles of Association; (b) any change in the proportion of votes required to pass a resolution of the members, whether as an ordinary resolution or a special resolution or in respect of particular matters or generally; (c) any variation to the number of votes attached to a share of any class; and (d) any change to this provision or the provisions summarized in paragraphs 2.1(b), 2.2(a) and 2.2(j) above, shall constitute a variation to the rights attached to the Class A Shares. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorized representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorized shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be

consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so canceled subject to the provisions of the Cayman Companies Law; and

(c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorized and subject to any conditions prescribed by the Cayman Companies Law.

2.6 Special resolution—majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to paragraph 2.1(b) above and any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorized in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognized clearing house (or its nominee(s)) which he represents as that recognized clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorization, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorize). The annual general meeting shall be specified as such in the notices calling it.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorized by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special

resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be canceled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favor of the Company; and

(f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as canceled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Cayman Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by check or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every check or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such check or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favor of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorized to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by installments and shall be deemed to have been made at the time when the resolution of the Directors authorizing the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and installments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or installment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or installment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or installment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or installments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the

Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company holding not less than one-third of the total voting power of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon

such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all checks or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 5, 2010 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorized share capital.

3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those

shares shall be transferred to an account called the "share premium account." At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorized either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the

company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorized by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

  (i) on or in respect of the shares, debentures or other obligations of the Company; or

  (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisors on Cayman Islands law, have sent to the Company a letter of advice summarizing aspects of Cayman Islands company law.

This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the section headed "Documents available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES AND CONSOLIDATED AFFILIATED ENTITIES

1. Incorporation

Our Company, formerly known as Top Elite Limited 精銳有限公司 was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability. On March 30, 2018, our Company adopted the Chinese name of "小米集团" as our dual foreign name. Our registered office address is at the offices of Osiris International Cayman Limited, Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311, Grand Cayman, KY1-1209, Cayman Islands. Accordingly, our Company's corporate structure and Memorandum and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III.

Our registered place of business in Hong Kong is at Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong. [We were registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on [●] 2018 with the Registrar of Companies in Hong Kong.] So Ka Man has been appointed as the authorized representative of our Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) to accept service of process and any notices on behalf of the Company. The address for service of process is Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong.

As at the date of this **[REDACTED]**, our Company's head office was located at Rainbow City Office Building, 68 Qinghe Middle Street, Haidian District, Beijing 100085, China.

2. Changes in share capital of Our Company

Our Company was incorporated with an authorized share capital of US$50,000 divided into 50,000 shares of par value US$1.00 each.

The following sets out the changes in the Company's issued share capital during the two years immediately preceding the date of this **[REDACTED]**:

(1) On August 24, 2017, the Company issued 495,830 Series F-1 Preferred Shares to Nokia Growth Partners II, L.P. for an aggregate purchase price of US$9,999,998.61.

(2) On March 30, 2018, the Company issued class B ordinary shares of par value of US$0.000025 per share each in the following manner, as consideration shares in exchange for certain indirect equity interests in Timi Personal Computing Co., Ltd. (北京田米科技有限公司):

  (i) 1,000,000 ordinary shares of par value US$0.000025 each to Powerful Era Limited; and

  (ii) 500,000 ordinary shares of par value US$0.000025 each to Bright Inspiration Holdings Limited.

(3) On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares of par value US$0.000025 each (or **[REDACTED]** Class B Shares following the Share Subdivision) to Smart Mobile Holdings Limited on par value of US$0.000025 per share.

(4) Share Subdivision

  [Assuming that the **[REDACTED]** becomes unconditional and the issue of **[REDACTED]** as mentioned in this **[REDACTED]** being made (assuming [the **[REDACTED]** is not exercised and] the options granted under the **[REDACTED]** ESOP are not exercised), the authorized share capital of our Company will be US$**[REDACTED]** divided into (i) **[REDACTED]** class

A ordinary shares of par value US$**[REDACTED]** each and (ii) **[REDACTED]** class B ordinary shares of par value of US$**[REDACTED]** each, respectively, and the issued share capital (including those Preferred Shares to be reclassified and re-designated as class B ordinary shares of US$[●] par value each of the Company on the **[REDACTED]**) shall be (i) **[REDACTED]** class A ordinary shares of par value US$**[REDACTED]** each and (ii) **[REDACTED]** class B ordinary shares of par value of US$**[REDACTED]** each, respectively. Save as disclosed herein and in the section headed "—Resolutions of the Shareholders of Our Company dated [●] 2018", there has been no alteration in the share capital of our Company since its incorporation.]

Save as disclosed above, there has been no alteration in the share capital of our Company during the two years immediately preceding the date of this **[REDACTED]**.

3. Changes in the share capital of our subsidiaries and Consolidated Affiliated Entities

A summary of the corporate information and the particulars of our subsidiaries are set out in note [12(a)] to the Accountant's Report as set out in Appendix I.

The following sets out the changes in the share capital of our major subsidiaries and Consolidated Affiliated Entities that made a material contribution to our results of operations during the two years immediately preceding the date of this **[REDACTED]**. For details of our major subsidiaries and Consolidated Affiliated Entities, please see the section headed "History, Reorganization and Corporate Structure—Major subsidiaries, Consolidated Affiliated Entities and operating entities."

Chongqing Microcredit

(1) On June 22, 2016, the registered capital of Chongqing Microcredit was increased from US$50,000,000 to US$100,000,000.

(2) On January 17, 2017, the registered capital of Chongqing Microcredit was increased from US$100,000,000 to US$150,000,000.

(3) On March 9, 2018, the registered capital of Chongqing Microcredit was increased from US$150,000,000 to US$450,000,000.

Save as disclosed above, there has been no alteration in the share capital of any of the major subsidiaries or Consolidated Affiliated Entities of our Company within the two years immediately preceding the date of this **[REDACTED]**.

Save for the subsidiaries mentioned in the Accountant's Report set out in Appendix I, our Company has no other subsidiaries or Consolidated Affiliated Entities.

4. Resolutions of the Shareholders of Our Company dated [●] 2018

Written resolutions of our Shareholders were passed on [●] 2018, pursuant to which, among others:

(1) [conditional on (i) the Listing Committee granting **[REDACTED]** of, and permission to deal in, the Shares in issue and to be issued as to be stated in this **[REDACTED]** and such **[REDACTED]** and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (ii) the **[REDACTED]** having been determined; (iii) the

obligations of the **[REDACTED]** under the **[REDACTED]** becoming unconditional and not being terminated in accordance with the terms of the **[REDACTED]** or otherwise, in each case on or before such dates as may be specified in the **[REDACTED]**; and (iv) the **[REDACTED]** having been duly executed by the **[REDACTED]** and the Company:

(a) all the issued and unissued Preferred Shares be re-designated and re-classified as class B ordinary shares of par value of US$0.000025 each, each having the rights and restrictions as set out in the Memorandum and the Articles, and; (b) upon the re-designation and re-classification of the share capital of the Company referred to in paragraph (a) above, (i) each class A ordinary shares of par value of US$0.000025 each be subdivided into **[REDACTED]** class A ordinary shares of par value of US$**[REDACTED]** each and (ii) each class B ordinary shares of par value of US$0.000025 each be subdivided into **[REDACTED]** class B ordinary shares of par value of US$**[REDACTED]** each; such that the authorized share capital of the Company shall be US$**[REDACTED]** divided into **[REDACTED]** Class A Shares of US$**[REDACTED]** par value each and **[REDACTED]** Class B Shares of US$**[REDACTED]** each and the issued share capital of the Company shall be US$**[REDACTED]** divided into **[REDACTED]** Class A Shares of US$**[REDACTED]** par value each and **[REDACTED]** Class B Shares of US$**[REDACTED]** each, in each case to be effective on the **[REDACTED]**;

(b) the **[REDACTED]** (including the **[REDACTED]**) was approved, and the proposed **[REDACTED]** and **[REDACTED]** of the **[REDACTED]** under the **[REDACTED]** were approved, and the Directors were authorized to determine the **[REDACTED]** for, and to allot and issue the **[REDACTED]**;

(c) a general unconditional mandate was given to our Directors, exercisable on their behalf by Lei Jun, to exercise all powers of our Company to allot, issue and deal with Class B Shares or securities convertible into Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Class B Shares) which might require Class B Shares to be allotted and issued or dealt with subject to the requirement that the aggregate nominal value of the Class B Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, otherwise than by way of the **[REDACTED]**, rights issue or pursuant to the exercise of any subscription rights attaching to any warrants which may be allotted and issued by the Company from time to time or, pursuant to the exercise of any options which may be granted under the allotment and issue of Class B Shares in lieu of the whole or part of a dividend on Class B Shares in accordance with the Articles of Association on a specific authority granted by our Shareholders in general meeting, shall not exceed 20% of the aggregate nominal value of the Shares in issue immediately following the completion of the **[REDACTED]**, excluding any Class B Shares to be [sold] pursuant to the [the exercise of the **[REDACTED]**,] options which have been granted under the **[REDACTED]** ESOP, options which may be granted under the **[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis;

(d) a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors, exercisable on their behalf by Lei Jun, to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on

which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the **[REDACTED]**, excluding any Class B Shares to be [sold] pursuant to the [the exercise of the **[REDACTED]**,] options which have been granted under the **[REDACTED]** ESOP, options which may be granted under the **[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis; and

(e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to purchase Shares referred to in paragraph (d) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following the completion of the **[REDACTED]**, excluding any Class B Shares to be [sold] pursuant to the [the exercise of the **[REDACTED]**,] options which have been granted under the **[REDACTED]** ESOP, options which may be granted under the **[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis; and

(2) our Company conditionally approved and adopted the Memorandum and Articles of Association with effect from the **[REDACTED]**.

Each of the general mandates referred to in paragraphs (1)(c), (1)(d) and (1)(e) above will remain in effect until whichever is the earliest of:

- the conclusion of the next annual general meeting of our Company;
- the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; or
- the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.]

5. Repurchase of our own securities

The following paragraphs include, among others, certain information required by the Stock Exchange to be included in this **[REDACTED]** concerning the repurchase of our own securities.

(a) Provision of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders' Approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on [●] 2018, the Repurchase Mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase Shares on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, with a total nominal value up to 10% of the aggregate nominal value of our Shares in issue immediately following the completion of the **[REDACTED]** (excluding any Class B Shares to be [sold] pursuant to the exercise of [the **[REDACTED]**,] options which have been granted under the **[REDACTED]** ESOP, options which may be granted under the **[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis), with such mandate to expire at the earliest of (i) the conclusion of the next annual general meeting of our Company (unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (ii) the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held, and (iii) the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of Funds

Purchases must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles of Association and the applicable laws and regulations of Hong Kong and the Cayman Islands. A listed company may not purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. As a matter of Cayman Islands law, any purchases by the Company may be made out of profits or out of the proceeds of a new issue of shares made for the purpose of the purchase or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Law. Any premium payable on the purchase over the par value of the shares to be purchased must have been provided for out of profits or from sums standing to the credit of our share premium account or out of capital, if so authorized by the Articles of Association and subject to the Cayman Companies Law.

(iii) Trading Restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the

public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) Status of Repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically canceled and the relative certificates must be canceled and destroyed. Under the laws of the Cayman Islands, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as canceled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorized share capital under Cayman Islands law.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person," that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for Repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and Shareholders.

(c) Funding of Repurchases

Repurchase of the Shares must be funded out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. Our Directors may not repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Directors may make repurchases with profits of the Company or out of a new issuance of shares made for the purpose of the repurchase or, if authorized by the Articles of Association and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by the Articles of Association and subject to Cayman Companies Law, out of capital.

However, our Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of **[REDACTED]** Shares in issue immediately following the completion of the **[REDACTED]**, but assuming [the **[REDACTED]** is not exercised] options which have been granted under the **[REDACTED]** ESOP, options which may be granted under the **[REDACTED]** ESOP and Class B Shares to be issued upon conversion of Class A Shares into Class B Shares on a one to one basis], could accordingly result in up to approximately **[REDACTED]** Shares being repurchased by our Company during the period prior to the earliest of:

- the conclusion of the next annual general meeting of our Company unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- the expiration of the period within which our Company's next annual general meeting is required by the Articles of Association or any other applicable laws to be held; or
- the date when it is varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

No core connected person of our Company has notified our Company that he or she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this **[REDACTED]** and are or may be material:

(1) a loan agreement dated February 27, 2017 entered into between Beijing Baien Technology Co., Ltd. (北京拜恩科技有限公司) and Zhu Ling pursuant to which, Beijing Baien Technology Co., Ltd. provided Zhu Ling with an interest-free loan of RMB250,000,000 for the purpose of obtaining the entire equity interest in Beijing Pinecone Digital Co., Ltd., a wholly-owned subsidiary of Beijing Baien Technology Co., Ltd.;

(2) the Series F-1 preferred share purchase agreement dated August 24, 2017 entered into between, among others, the Company, Nokia Growth Partners II, L.P. and Lei Jun pursuant to which the Company issued 495,830 Series F-1 Shares to Nokia Growth Partners II, L.P., pursuant to which, among other things, Nokia Growth Partners II, L.P. agreed to purchase, and Xiaomi Corporate issued 495,830 Series F-1 Shares of Xiaomi Corporation;

(3) a deed of adherence dated August 24, 2017 entered into between Nokia Growth Partners II, L.P. and the Xiaomi Corporation in connection with a shareholders agreement dated July 3, 2015 as supplemented and amended from time to time (the Shareholders Agreement), pursuant to which, among other things, Nokia Growth Partners II, L.P. agreed to be bound by the Shareholders Agreement; and

(4) an exclusive business cooperation agreement dated April 11, 2018 entered into between Xiaomi Communications and Xiaomi Inc., pursuant to which Xiaomi Inc. agreed to engage Xiaomi Communications as the exclusive service provider of technical support, consultation and other services in return for service fees;

(5) a power of attorney dated April 11, 2018 executed by Liu De in favor of and accepted by Xiaomi Communications, pursuant to which Liu De agreed to, among other things, exclusively authorize Xiaomi Communications or Xiaomi Communications's designated person(s) to exercise all of his rights as shareholder of Xiaomi Inc.;

(6) an exclusive call option agreement dated April 11, 2018 entered into among Xiaomi Communications, Liu De and Xiaomi Inc., pursuant to which Liu De agreed to grant Xiaomi Communications an exclusive and irrevocable option to purchase from Liu De all or part of his equity interests in Xiaomi Inc. for a total consideration of RMB36,643,952;

(7) an equity pledge agreement dated April 11, 2018 entered into among Xiaomi Communications, Liu De and Xiaomi Inc., pursuant to which Liu De agreed to pledge all of his existing and future equity interests in Xiaomi Inc. to Xiaomi Communications;

(8) a loan agreement dated April 11, 2018 entered into between Xiaomi Communications and Liu De, pursuant to which Xiaomi Communications agreed to provide a loan of RMB36,643,952 to Liu De to be used exclusively as investment in Xiaomi Inc.;

(9) a power of attorney dated April 11, 2018 executed by Hong Feng in favor of and accepted by Xiaomi Communications, pursuant to which Hong Feng agreed to, among other things, exclusively authorize Xiaomi Communications or Xiaomi Communications's designated person(s) to exercise all of his rights as shareholder of Xiaomi Inc.;

(10) an exclusive call option agreement dated April 11, 2018 entered into among Xiaomi Communications, Hong Feng and Xiaomi Inc., pursuant to which Hong Feng agreed to grant Xiaomi Communications an exclusive and irrevocable option to purchase from Hong Feng all or part of his equity interests in Xiaomi Inc. for a total consideration of RMB183,522,280;

(11) an equity pledge agreement dated April 11, 2018 entered into among Xiaomi Communications, Hong Feng and Xiaomi Inc., pursuant to which Hong Feng agreed to pledge all of his existing and future equity interests in Xiaomi Inc. to Xiaomi Communications;

(12) a loan agreement dated April 11, 2018 entered into between Xiaomi Communications and Hong Feng, pursuant to which Xiaomi Communications agreed to provide a loan of RMB183,522,280 to Hong Feng to be used exclusively as investment in Xiaomi Inc.;

(13) a power of attorney dated April 11, 2018 executed by Lei Jun in favor of and accepted by Xiaomi Communications, pursuant to which Lei Jun agreed to, among other things, exclusively authorize Xiaomi Communications or Xiaomi Communications's designated person(s) to exercise all of his rights as shareholder of Xiaomi Inc.;

(14) an exclusive call option agreement dated April 11, 2018 entered into among Xiaomi Communications, Lei Jun and Xiaomi Inc., pursuant to which Lei Jun agreed to grant Xiaomi Communications an exclusive and irrevocable option to purchase from Lei Jun all or part of his equity interests in Xiaomi Inc. for a total consideration of RMB1,418,398,745;

(15) an equity pledge agreement dated April 11, 2018 entered into among Xiaomi Communications, Lei Jun and Xiaomi Inc., pursuant to which Lei Jun agreed to pledge all of his existing and future equity interests in Xiaomi Inc. to Xiaomi Communications;

(16) a loan agreement dated April 11, 2018 entered into between Xiaomi Communications and Lei Jun, pursuant to which Xiaomi Communications agreed to provide a loan of RMB1,418,398,745 to Lei Jun to be used exclusively as investment in Xiaomi Inc.;

(17) a power of attorney dated April 11, 2018 executed by Li Wanqiang in favor of and accepted by Xiaomi Communications, pursuant to which Li Wanqiang agreed to, among other things, exclusively authorize Xiaomi Communications or Xiaomi Communications's designated person(s) to exercise all of his rights as shareholder of Xiaomi Inc.;

(18) an exclusive call option agreement dated April 11, 2018 entered into among Xiaomi Communications, Li Wanqiang and Xiaomi Inc., pursuant to which Li Wanqiang agreed to grant Xiaomi Communications an exclusive and irrevocable option to purchase from Li Wanqiang all or part of his equity interests in Xiaomi Inc. for a total consideration of RMB184,519,034;

(19) an equity pledge agreement dated April 11, 2018 entered into among Xiaomi Communications, Li Wanqiang and Xiaomi Inc., pursuant to which Li Wanqiang agreed to pledge all of his existing and future equity interests in Xiaomi Inc. to Xiaomi Communications;

(20) a loan agreement dated April 11, 2018 entered into between Xiaomi Communications and Li Wanqiang, pursuant to which Xiaomi Communications agreed to provide a loan of RMB184,519,034 to Li Wanqiang to be used exclusively as investment in Xiaomi Inc.;

(21) an exclusive business cooperation agreement dated April 17, 2018 entered into between Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) and Beijing Electronic Software, pursuant to which Beijing Electronic Software agreed to engage Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) as the exclusive service provider of technical support, consultation and other services in return for service fees;

(22) a power of attorney dated April 17, 2018 executed by Hong Feng in favor of and accepted by Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), pursuant to which Hong Feng agreed to, among other things, exclusively authorize Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) or Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司)'s designated person(s) to exercise all of his rights as shareholder of Beijing Electronic Software;

(23) an exclusive call option agreement dated April 17, 2018 entered into among Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), Hong Feng and Beijing Electronic Software, pursuant to which Hong Feng agreed to grant Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) an exclusive and irrevocable option to purchase from Hong Feng all or part of his equity interests in Beijing Electronic Software for a total consideration of RMB207,446,965.61;

(24) an equity pledge agreement dated April 17, 2018 entered into among Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), Hong Feng and Beijing Electronic Software, pursuant to which Hong Feng agreed to pledge all of his existing and future equity interests in Beijing Electronic Software to Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司);

(25) a loan agreement dated April 17, 2018 entered into between Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) and Hong Feng, pursuant to which Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) agreed to

provide a loan of RMB207,446,965.61 to Hong Feng to be used exclusively as investment in Beijing Electronic Software;

(26) a power of attorney dated April 17, 2018 executed by Lei Jun in favor of and accepted by Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), pursuant to which Lei Jun agreed to, among other things, exclusively authorize Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) or Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司)'s designated person(s) to exercise all of his rights as shareholder of Beijing Electronic Software;

(27) an exclusive call option agreement dated April 17, 2018 entered into among Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), Lei Jun and Beijing Electronic Software, pursuant to which Lei Jun agreed to grant Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) an exclusive and irrevocable option to purchase from Lei Jun all or part of his equity interests in Beijing Electronic Software for a total consideration of RMB1,867,022,690.45;

(28) an equity pledge agreement dated April 17, 2018 entered into among Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), Lei Jun and Beijing Electronic Software, pursuant to which Lei Jun agreed to pledge all of his existing and future equity interests in Beijing Electronic Software to Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司);

(29) a loan agreement dated April 17, 2018 entered into between Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) and Lei Jun, pursuant to which Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司) agreed to provide a loan of RMB1,867,022,690.45 to Lei Jun to be used exclusively as investment in Beijing Electronic Software;

(30) an exclusive business cooperation agreement dated December 1, 2017 entered into between Xiaomi Communications and Beijing Wali Culture, pursuant to which Beijing Wali Culture agreed to engage Xiaomi Communications as the exclusive service provider of technical support, consultation and other services in return for service fees;

(31) a power of attorney dated December 1, 2017 executed by Shang Jin in favor of and accepted by Xiaomi Communications, pursuant to which Shang Jin agreed to, among other things, exclusively authorize Xiaomi Communications or Xiaomi Communications's designated person(s) to exercise all of his rights as shareholder of Beijing Wali Culture;

(32) an exclusive call option agreement dated December 1, 2017 entered into among Xiaomi Communications, Shang Jin and Beijing Wali Culture, pursuant to which Shang Jin agreed to grant Xiaomi Communications an exclusive and irrevocable option to purchase from Shang Jin all or part of his equity interests in Beijing Wali Culture for a total consideration of RMB300,000;

(33) an equity pledge agreement dated December 1, 2017 entered into among Xiaomi Communications, Shang Jin and Beijing Wali Culture, pursuant to which Shang Jin agreed to pledge all of his existing and future equity interests in Beijing Wali Culture to Xiaomi Communications;

(34) a loan agreement dated December 1, 2017 entered into between Xiaomi Communications and Shang Jin, pursuant to which Xiaomi Communications agreed to provide a loan of RMB300,000 to Shang Jin to be used exclusively as investment in Beijing Wali Culture;

(35) a power of attorney dated December 1, 2017 executed by Lei Jun in favor of and accepted by Xiaomi Communications, pursuant to which Lei Jun agreed to, among other things, exclusively authorize Xiaomi Communications or Xiaomi Communications's designated person(s) to exercise all of his rights as shareholder of Beijing Wali Culture;

(36) an exclusive call option agreement dated December 1, 2017 entered into among Xiaomi Communications, Lei Jun and Beijing Wali Culture, pursuant to which Lei Jun agreed to grant Xiaomi Communications an exclusive and irrevocable option to purchase from Lei Jun all or part of his equity interests in Beijing Wali Culture for a total consideration of RMB2,700,000;

(37) an equity pledge agreement dated December 1, 2017 entered into among Xiaomi Communications, Lei Jun and Beijing Wali Culture, pursuant to which Lei Jun agreed to pledge all of his existing and future equity interests in Beijing Wali Culture to Xiaomi Communications;

(38) a loan agreement dated December 1, 2017 entered into between Xiaomi Communications and Lei Jun, pursuant to which Xiaomi Communications agreed to provide a loan of RMB2,700,000 to Lei Jun to be used exclusively as investment in Beijing Wali Culture;

(39) an exclusive business cooperation agreement dated April 11, 2018 entered into between Beijing Wali and Beijing Wali Internet, pursuant to which Beijing Wali Internet agreed to engage Beijing Wali as the exclusive service provider of technical support, consultation and other services in return for service fees;

(40) a power of attorney dated April 11, 2018 executed by Liu Jingyan in favor of and accepted by Beijing Wali, pursuant to which Liu Jingyan agreed to, among other things, exclusively authorize Beijing Wali or Beijing Wali's designated person(s) to exercise all of his rights as shareholder of Beijing Wali Internet;

(41) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wali, Liu Jingyan and Beijing Wali Internet, pursuant to which Liu Jingyan agreed to grant Beijing Wali an exclusive and irrevocable option to purchase from Liu Jingyan all or part of his equity interests in Beijing Wali Internet for a total consideration of RMB1;

(42) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wali, Liu Jingyan and Beijing Wali Internet, pursuant to which Liu Jingyan agreed to pledge all of his existing and future equity interests in Beijing Wali Internet to Beijing Wali;

(43) a power of attorney dated April 11, 2018 executed by Liu Yang in favor of and accepted by Beijing Wali, pursuant to which Liu Yang agreed to, among other things, exclusively authorize Beijing Wali or Beijing Wali's designated person(s) to exercise all of her rights as shareholder of Beijing Wali Internet ;

(44) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wali, Liu Yang and Beijing Wali Internet, pursuant to which Liu Yang agreed to grant Beijing Wali an exclusive and irrevocable option to purchase from Liu Yang all or part of her equity interests in Beijing Wali Internet for a total consideration of RMB1;

(45) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wali, Liu Yang and Beijing Wali Internet, pursuant to which Liu Yang agreed to pledge all of her existing and future equity interests in Beijing Wali Internet to Beijing Wali;

(46) a power of attorney dated April 11, 2018 executed by Nan Nan in favor of and accepted by Beijing Wali, pursuant to which Nan Nan agreed to, among other things, exclusively authorize Beijing Wali or Beijing Wali's designated person(s) to exercise all of her rights as shareholder of Beijing Wali Internet ;

(47) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wali, Nan Nan and Beijing Wali Internet, pursuant to which Nan Nan agreed to grant Beijing Wali an exclusive and irrevocable option to purchase from Nan Nan all or part of her equity interests in Beijing Wali Internet for a total consideration of RMB1;

(48) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wali, Nan Nan and Beijing Wali Internet, pursuant to which Nan Nan agreed to pledge all of her existing and future equity interests in Beijing Wali Internet to Beijing Wali;

(49) a power of attorney dated April 11, 2018 executed by Yuan Bin in favor of and accepted by Beijing Wali, pursuant to which Yuan Bin agreed to, among other things, exclusively authorize Beijing Wali or Beijing Wali's designated person(s) to exercise all of his rights as shareholder of Beijing Wali Internet ;

(50) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wali, Yuan Bin and Beijing Wali Internet, pursuant to which Yuan Bin agreed to grant Beijing Wali an exclusive and irrevocable option to purchase from Yuan Bin all or part of his equity interests in Beijing Wali Internet for a total consideration of RMB1;

(51) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wali, Yuan Bin and Beijing Wali Internet, pursuant to which Yuan Bin agreed to pledge all of his existing and future equity interests in Beijing Wali Internet to Beijing Wali;

(52) a power of attorney dated April 11, 2018 executed by Lei Jun in favor of and accepted by Beijing Wali, pursuant to which Lei Jun agreed to, among other things, exclusively authorize Beijing Wali or Beijing Wali's designated person(s) to exercise all of his rights as shareholder of Beijing Wali Internet ;

(53) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wali, Lei Jun and Beijing Wali Internet, pursuant to which Lei Jun agreed to grant Beijing Wali an exclusive and irrevocable option to purchase from Lei Jun all or part of his equity interests in Beijing Wali Internet for a total consideration of RMB1;

(54) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wali, Lei Jun and Beijing Wali Internet, pursuant to which Lei Jun agreed to pledge all of his existing and future equity interests in Beijing Wali Internet to Beijing Wali;

(55) a power of attorney dated April 11, 2018 executed by Liang Qiushi in favor of and accepted by Beijing Wali, pursuant to which Liang Qiushi agreed to, among other things, exclusively authorize Beijing Wali or Beijing Wali's designated person(s) to exercise all of his rights as shareholder of Beijing Wali Internet;

(56) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wali, Liang Qiushi and Beijing Wali Internet, pursuant to which Liang Qiushi agreed to grant Beijing Wali an exclusive and irrevocable option to purchase from Liang Qiushi all or part of his equity interests in Beijing Wali Internet for a total consideration of RMB1;

(57) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wali, Liang Qiushi and Beijing Wali Internet, pursuant to which Liang Qiushi agreed to pledge all of his existing and future equity interests in Beijing Wali Internet to Beijing Wali;

(58) an exclusive business cooperation agreement dated April 11, 2018 entered into between Beijing Digital Technology and Beijing Duokan, pursuant to which Beijing Duokan agreed to engage Beijing Digital Technology as the exclusive service provider of technical support, consultation and other services in return for service fees;

(59) a power of attorney dated April 11, 2018 executed by Wang Chuan in favor of and accepted by Beijing Digital Technology, pursuant to which Wang Chuan agreed to, among other things, exclusively authorize Beijing Digital Technology or Beijing Digital Technology's designated person(s) to exercise all of his rights as shareholder of Beijing Duokan;

(60) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Digital Technology, Wang Chuan and Beijing Duokan, pursuant to which Wang Chuan agreed to grant Beijing Digital Technology an exclusive and irrevocable option to purchase from Wang Chuan all or part of his equity interests in Beijing Duokan for a total consideration of RMB1;

(61) an equity pledge agreement dated April 11, 2018 entered into among Beijing Digital Technology, Wang Chuan and Beijing Duokan, pursuant to which Wang Chuan agreed to pledge all of his existing and future equity interests in Beijing Duokan to Beijing Digital Technology;

(62) a power of attorney dated April 11, 2018 executed by Lei Jun in favor of and accepted by Beijing Digital Technology, pursuant to which Lei Jun agreed to, among other things, exclusively authorize Beijing Digital Technology or Beijing Digital Technology's designated person(s) to exercise all of his rights as shareholder of Beijing Duokan;

(63) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Digital Technology, Lei Jun and Beijing Duokan, pursuant to which Lei Jun agreed to grant Beijing Digital Technology an exclusive and irrevocable option to purchase from Lei Jun all or part of his equity interests in Beijing Duokan for a total consideration of RMB1;

(64) an equity pledge agreement dated April 11, 2018 entered into among Beijing Digital Technology, Lei Jun and Beijing Duokan, pursuant to which Lei Jun agreed to pledge all of his existing and future equity interests in Beijing Duokan to Beijing Digital Technology;

(65) an exclusive business cooperation agreement dated April 11, 2018 entered into between Xiaomi Mobile Software and Rigo Design, pursuant to which Rigo Design agreed to engage Xiaomi Mobile Software as the exclusive service provider of technical support, consultation and other services in return for service fees;

(66) a power of attorney dated April 11, 2018 executed by Zhu Yin in favor of and accepted by Xiaomi Mobile Software, pursuant to which Zhu Yin agreed to, among other things, exclusively authorize Xiaomi Mobile Software or Xiaomi Mobile Software's designated person(s) to exercise all of his rights as shareholder of Rigo Design;

(67) an exclusive call option agreement dated April 11, 2018 entered into among Xiaomi Mobile Software, Zhu Yin and Rigo Design, pursuant to which Zhu Yin agreed to grant Xiaomi Mobile Software an exclusive and irrevocable option to purchase from Zhu Yin all or part of his equity interests in Rigo Design for a total consideration of RMB1;

(68) an equity pledge agreement dated April 11, 2018 entered into among Xiaomi Mobile Software, Zhu Yin and Rigo Design, pursuant to which Zhu Yin agreed to pledge all of his existing and future equity interests in Rigo Design to Xiaomi Mobile Software;

(69) a power of attorney dated April 11, 2018 executed by Li Jiong in favor of and accepted by Xiaomi Mobile Software, pursuant to which Li Jiong agreed to, among other things, excluisvely authorize Xiaomi Mobile Software or Xiaomi Mobile Software's designated person(s) to exercise all of his rights as shareholder of Rigo Design;

(70) an exclusive call option agreement dated April 11, 2018 entered into among Xiaomi Mobile Software, Li Jiong and Rigo Design, pursuant to which Li Jiong agreed to grant Xiaomi Mobile Software an exclusive and irrevocable option to purchase from Li Jiong all or part of his equity interests in Rigo Design for a total consideration of RMB1;

(71) an equity pledge agreement dated April 11, 2018 entered into among Xiaomi Mobile Software, Li Jiong and Rigo Design, pursuant to which Li Jiong agreed to pledge all of his existing and future equity interests in Rigo Design to Xiaomi Mobile Software;

(72) an exclusive business cooperation agreement dated April 11, 2018 entered into between Beijing Wenmi and Xiaomi Pictures, pursuant to which Xiaomi Pictures agreed to engage Beijing Wenmi as the exclusive service provider of technical support, consultation and other services in return for service fees;

(73) a power of attorney dated April 11, 2018 executed by Liu De in favor of and accepted by Beijing Wenmi, pursuant to which Liu De agreed to, among other things, exclusively authorize Beijing Wenmi or Beijing Wenmi's designated person(s) to exercise all of his rights as shareholder of Xiaomi Pictures;

(74) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wenmi, Liu De and Xiaomi Pictures, pursuant to which Liu De agreed to grant Beijing Wenmi an exclusive and irrevocable option to purchase from Liu De all or part of his equity interests in Xiaomi Pictures for a total consideration of RMB1;

(75) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wenmi, Liu De and Xiaomi Pictures, pursuant to which Liu De agreed to pledge all of his existing and future equity interests in Xiaomi Pictures to Beijing Wenmi;

(76) a power of attorney dated April 11, 2018 executed by Hong Feng in favor of and accepted by Beijing Wenmi, pursuant to which Hong Feng agreed to, among other things, exclusively authorize Beijing Wenmi or Beijing Wenmi's designated person(s) to exercise all of his rights as shareholder of Xiaomi Pictures;

(77) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wenmi, Hong Feng and Xiaomi Pictures, pursuant to which Hong Feng agreed to grant Beijing Wenmi an exclusive and irrevocable option to purchase from Hong Feng all or part of his equity interests in Xiaomi Pictures for a total consideration of RMB1;

(78) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wenmi, Hong Feng and Xiaomi Pictures, pursuant to which Hong Feng agreed to pledge all of his existing and future equity interests in Xiaomi Pictures to Beijing Wenmi;

(79) a power of attorney dated April 11, 2018 executed by Li Wanqiang in favor of and accepted by Beijing Wenmi, pursuant to which Li Wanqiang agreed to, among other

things, exclusively authorize Beijing Wenmi or Beijing Wenmi's designated person(s) to exercise all of his rights as shareholder of Xiaomi Pictures;

(80) an exclusive call option agreement dated April 11, 2018 entered into among Beijing Wenmi, Li Wanqiang and Xiaomi Pictures, pursuant to which Li Wanqiang agreed to grant Beijing Wenmi an exclusive and irrevocable option to purchase from Li Wanqiang all or part of his equity interests in Xiaomi Pictures for a total consideration of RMB1;

(81) an equity pledge agreement dated April 11, 2018 entered into among Beijing Wenmi, Li Wanqiang and Xiaomi Pictures, pursuant to which Li Wanqiang agreed to pledge all of his existing and future equity interests in Xiaomi Pictures to Beijing Wenmi;

(82) [**[REDACTED]** Agreement]; and

(83) the Hong Kong **[REDACTED]**.

2. Intellectual Property Rights

(a) Trademarks

As March 31, 2018, we had registered the following trademarks that we consider to be or may be material to our business:

No.	Trademark	Registered Owner	Place of Registration	Class	Registered Number	Registration Date (mm/dd/yyyy)
1.		Xiaomi Inc.	mainland China	9	8911270	07/07/2012
2.		Xiaomi Inc.	mainland China	37	10268535	02/07/2013
3.		Xiaomi Inc.	mainland China	35	10979461	10/21/2013
4.		Xiaomi Inc.	mainland China	36	10268536	02/07/2013
5.		Xiaomi Inc.	mainland China	38	10268534	02/07/2013
6.		Xiaomi Inc.	mainland China	42	10273145	03/07/2013
7.		Xiaomi Inc.	mainland China	25	10268539	03/07/2013
8.		Xiaomi Inc.	mainland China	18	10268542	02/07/2013
9.		Xiaomi Inc.	mainland China	9	10979448	08/14/2014
10.	小米	Xiaomi Inc.	mainland China	9	8228211	04/28/2011
11.	小米	Xiaomi Inc.	mainland China	9	10674583	04/07/2015
12.	小米	Xiaomi Inc.	mainland China	16	10268558	02/07/2013
13.	小米	Xiaomi Inc.	mainland China	35	8298568	05/07/2013
14.	小米	Xiaomi Inc.	mainland China	36	10268552	02/07/2013

No.	Trademark	Registered Owner	Place of Registration	Class	Registered Number	Registration Date (mm/dd/yyyy)
15.	小米	Xiaomi Inc.	mainland China	37	10268551	05/07/2014
16.	小米	Xiaomi Inc.	mainland China	38	8298621	08/07/2011
17.	小米	Xiaomi Inc.	mainland China	42	10268548	02/07/2013
18.	XIAOMI	Xiaomi Inc.	mainland China	9	10272726	09/07/2014
19.	MIJIA 米家	Xiaomi Inc.	mainland China	11	8522198	08/07/2011
20.	米家	Xiaomi Inc.	mainland China	11	15161529	03/28/2017
21.	米家	Xiaomi Inc.	mainland China	7	15161531	09/28/2015
22.		Xiaomi Inc.	mainland China	11	16953358	01/07/2017
23.		Xiaomi Inc.	mainland China	9	16953287	10/21/2017
24.	红米	Xiaomi Inc.	mainland China	9	11263303	04/07/2016
25.	RedMI	Xiaomi Inc.	mainland China	9	13846095A	05/28/2015
26.	小米盒子	Xiaomi Inc.	mainland China	9	11506548	02/21/2014
27.	MI BOX	Xiaomi Inc.	mainland China	9	14532784	12/07/2015
28.	多看	Beijing Duokan	mainland China	9	8471269	07/21/2011
29.	miui	Xiaomi Inc.	mainland China	28	10308449	06/07/2014
30.	米兔	Xiaomi Inc.	mainland China	9	10979418	09/21/2013
31.		Xiaomi Inc.	mainland China	9	19072758	03/14/2017
32.	小米之家	Xiaomi Inc.	mainland China	9	10286656	05/21/2016
33.	小米之家	Xiaomi Inc.	mainland China	35	10286657	02/14/2013
34.	小米之家	Xiaomi Inc.	mainland China	37	10286658	05/14/2014
35.	MIUI	Xiaomi Inc.	mainland China	9	8701320	10/07/2011
36.	MIUI	Xiaomi Inc.	mainland China	42	8701376	11/28/2011
37.	米聊	Xiaomi Inc.	mainland China	9	9082558	02/07/2012
38.		Xiaomi Inc.	Hong Kong	3, 5, 8, 9, 11, 12, 14, 16, 17, 18, 20, 21, 22, 24, 25, 26, 27, 28, 30, 34, 35, 36, 38, 41, 42, 43, 45	302269486	02/17/2014
39.	小米	Xiaomi Inc.	Hong Kong	9, 11, 14, 25, 35, 38, 42	302266164AA	11/24/2016

No.	Trademark	Registered Owner	Place of Registration	Class	Registered Number	Registration Date (mm/dd/yyyy)
40.	小米	Xiaomi Inc.	Hong Kong	3, 5, 8, 12, 16, 17, 18, 20, 21, 22	302266579	11/30/2016
41.	小米	Xiaomi Inc.	Hong Kong	24, 26, 27, 28, 34, 36, 38, 41, 43, 45	302266588	08/22/2016
42.	XIAOMI	Xiaomi Inc.	Hong Kong	9, 11, 14, 25, 35, 38, 42	302267749	12/23/2013
43.	XIAOMI	Xiaomi Inc.	Hong Kong	3, 5, 8, 12, 16, 17, 18, 20, 21, 22	302267703	03/17/2014
44.	XIAOMI	Xiaomi Inc.	Hong Kong	24, 26, 27, 28, 30, 34, 36, 41, 43, 45	302267758	12/23/2013
45.	mijia	Xiaomi Inc.	Hong Kong	11, 20, 24, 38	303801555	03/07/2017
46.	米家	Xiaomi Inc.	Hong Kong	7, 9, 10, 11, 12, 28, 42	303836755	05/31/2017
47.	米家	Xiaomi Inc.	Hong Kong	14, 16, 20, 21, 25, 35, 38	303836764	05/31/2017
48.	红米	Xiaomi Inc.	Hong Kong	9, 35, 38, 42	302825668	08/19/2014
49.	miLi	Xiaomi Inc.	Hong Kong	3, 5, 8, 9, 11, 12, 16, 17, 20, 22, 24, 26, 27, 28, 30, 34, 38, 41, 42, 43, 45	302269495	02/24/2014
50.	米兔	Xiaomi Inc.	Hong Kong	9, 11, 14, 25, 35, 38, 42	302267938	02/24/2014
51.	小米之家	Xiaomi Inc.	Hong Kong	35, 37, 43	302267992	05/06/2013
52.	MIUI MIUI	Xiaomi Inc.	Hong Kong	9, 35, 42	302269521	04/23/2013
53.	米聊	Xiaomi Inc.	Hong Kong	9, 35, 42	302267893	04/10/2013

(b) Patents

As of March 31, 2018, we had over 3,600 patents registered with the State Intellectual Property Office of mainland China and over 10,900 pending patent applications in mainland China. Globally, we had over 3,500 patents registered and over 5,800 pending patent applications in various overseas countries and jurisdictions, including the United States, Europe (including but not limited to, UK, France, Germany), India, Japan and Russia. These registered patents include patents with respect to smartphones, smart hardwares, internet technologies, manufacture and product design.

(c) Copyrights

As of March 31, 2018, we had registered the following copyrights which are material in relation to our Group's business:

i) Works (作品)

No.	Copyright	Registration Number	Registration Date (mm/dd/yyyy)
1.	MI Logo (MI圖形)	國作登字-2018-F-00400972	1/18/2018
2.	Identity logo of Mi Home (小米之家形象識別圖)	國作登字-2018-F-00400973	1/18/2018
3.	Logo design of MIUI-V5 (MIUI-V5圖形設計)	國作登字-2013-F-00091328	05/14/2013
4.	Humei (狐妹)	國作登字2013-F-00086981	04/03/2013
5.	Packaging diagram of Vinyl Mitu (米兔搪膠包裝圖)	國作登字-2012-F-00057277	03/26/2012
6.	Outer packaging diagram of Mitu Plush Doll (米兔毛絨玩偶外包裝圖)	國作登字-2012-F-00057289	03/26/2012
7.	Logo of uniform of Mitu customer services (米兔客服衣服圖案)	國作登字-2012-F-00058112	03/29/2012
8.	Logo of Mitu customer services (米兔客服Logo)	國作登字-2012-F-00058113	03/29/2012
9.	Graphic of Mitu lifting a flag (米兔舉旗)	國作登字-2012-F-00058118	03/29/2012
10.	Silicone packaging of Mitu (米兔矽膠包裝)	國作登字-2012-F-00057282	03/26/2012
11.	Emotion images of Mitu (米兔表情原型)	2011-F-052862	12/29/2011
12.	Mi Transformers—Munch (MI變形系列之蒙克)	2011-F-052860	12/29/2011
13.	Barcode on outer packaging of elephant mobile phone stand (小象手機支架外包裝條形碼圖案)	2011-F-052886	12/29/2011
14.	Emotion images of Mitu (米兔表情原型)	2011-F-052863	12/29/2011
15.	Mi Transformers—Dali (MI變形系列之達利)	2011-F-050631	12/07/2011
16.	Logo of Mi (Mi圖形)	國作登字-2017-F-00360143	03/01/2017
17.	MIJIA and its logo (MIJIA及圖形)	國作登字-2016-F-00269796	05/17/2016
18.	Message ringtone (短信鈴音)	國作登字-2014-S-00134992	07/25/2014
19.	Call ringtone (手機鈴音)	國作登字-2014-B-00128894	07/15/2014
20.	Logo of MIJIA Customized Products (米家定制logo)	國作登字-2017-F-00477188	06/20/2017
21.	Weather icons on MiHome (小米桌面天氣圖標)	國作登字-2013-F-00117358	12/13/2013
22.	Logo of Mi VR (小米 VRLOGO)	國作登字-2017-F-00486855	07/27/2017
23.	Virtual image of Mi Ai (小愛虛擬形象)	國作登字-2017-F-00439079	12/04/2017
24.	Graphic of Mitu Standing (米兔站立圖形)	國作登字-2017-F-00442760	12/13/2017

ii) Software (軟件)

No.	Copyright	Version	Registration Number	Registration Date (mm/dd/yyyy)
1.	Duokan Reader Software (iOS 5.0 Version) (多看閱讀軟件 (iOS 5.0 版))	V1.0	2013SR042791	05/09/2013
2.	Duokan Reader Software (for Android 4.0 Version) (多看閱讀軟件 (for Android 4.0 版))	V1.0	2013SR048012	05/21/2013
3.	Duokan Reader Software (for Android 4.2 Version) (多看閱讀軟件 (for Android 4.2 版))	V1.0	2013SR042800	05/09/2013
4.	Duokan Reader Software (iOS 6.0 Version) (多看閱讀軟件 (iOS 6.0 版))	V1.0	2013SR042631	05/09/2013
5.	Duokan Ebook Dictionary System (多看電紙書字典系統)	V1.0	2010SR057944	11/02/2010
6.	Airkan Agreement Software (Airkan 協議軟件)	V1.0	2016SR089191	04/28/2016
7.	MiBoxUI System Software (小米 MiBoxUI 系統軟件)	V1.0	2017SR242069	06/07/2017
8.	MIUI Online Video Software (MIUI 在綫視頻軟件)	V1.0	2016SR089195	04/28/2016
9.	Doukan Video Software (For AppleTV) (多看視頻軟件 (for AppleTV))	V1.0	2016SR089200	04/28/2016
10.	Mobile remote control software for Xiaomi Hub (盒子手機遙控軟件)	V1.0	2016SR089202	04/28/2016
11.	Video software for Xiaomi Hub (盒子在綫視頻軟件)	V1.0	2016SR089206	04/28/2016
12.	Video player software for mobile phone (手機視頻播放軟件)	V1.0	2016SR089211	04/28/2016
13.	Miliao communication software (for Windows 8) (米聊 Windows8 版本通訊軟件)	V1.0	2013SR076133	07/29/2013
14.	OS software for MIUI Mobile App (MIUI 移動操作系統軟件)	V1.0	2013SR036886	04/24/2013
15.	Mihome software (小米桌面軟件)	V1.0	2013SR033509	04/12/2013
16.	Xiaomi operational data system software (小米運營數據系統軟件)	V1.0	2012SR034956	05/03/2012
17.	After-sale service system software of Xiaomi Technology (小米科技售後服務系統軟件)	V1.0	2012SR035052	05/03/2012
18.	Xiaomi Storage software (小米倉儲軟件)	V1.0	2012SR034666	05/03/2012

No.	Copyright	Version	Registration Number	Registration Date (mm/dd/yyyy)
19.	Software for Xiaomi Mobile Online Shop (Android version) (小米移動網上營業廳軟件 (Android 版))	V1.0	2016SR330529	11/15/2016
20.	Software for Xiaomi Mobile Online Shop (iOS version) (小米移動網上營業廳軟件 (iOS 版))	V1.0	2016SR322156	11/08/2016
21.	Software for Xiaomi Mall (小米商城軟件)	V1.0	2015SR115578	06/25/2015
22.	Xiaomi Reading software (for Android version) (小米小說軟件 (for Android 版))	V1.0	2013SR159136	12/27/2013
23.	Software for Xiaomi Mobile Assistant (小米手機助手軟件)	V1.0	2013SR116591	10/31/2013
24.	Mobile instant communication software of Miliao (for Android) (小米米聊 Android 平台手機即時通訊軟件)	V1.0	2011SR098162	12/20/2011
25.	Software for Xiaomi App store (小米應用超市軟件)	V1.0	2012SR028632	04/12/2012
26.	Software for Xiaomi themes (小米主題軟件)	V1.0	2012SR028630	04/12/2012
27.	Xiaomi system update software (小米系統更新軟件)	V1.0	2012SR028575	04/12/2012
28.	Xiaomi Music software (小米音樂軟件)	V1.0	2012SR028595	04/12/2012
29.	Xiaomi gallery software (小米圖庫軟件)	V1.0	2012SR028577	04/12/2012
30.	Xiaomi contacts software (小米連絡人軟件)	V1.0	2012SR028592	04/12/2012
31.	Do Not Disturb software of Xiaomi (小米防打擾軟件)	V1.0	2012SR028586	04/12/2012
32.	Xiaomi message software (小米短信軟件)	V1.0	2012SR028606	04/12/2012
33.	Software for Xiaomi phones (小米電話軟件)	V1.0	2012SR028581	04/12/2012
34.	Software for Xiaomi routers (小米路由器軟件)	V1.0	2015SR243564	12/04/2015
35.	Xiaomi lockscreen software (小米鎖屏軟件)	V1.0	2012SR028628	04/12/2012
36.	Xiaomi launcher software (小米啓動器軟件)	V1.0	2012SR015648	03/01/2012
37.	MIUI OS software (小米MIUI操作系統軟件)	V3.0	2016SR195143	07/27/2016

No.	Copyright	Version	Registration Number	Registration Date (mm/dd/yyyy)
38.	MIUI OS software (小米MIUI操作系統軟件)	V4.0	2016SR343242	11/28/2016
39.	Push software of Xiaomi (小米推送軟件)	V1.0	2016SR122824	05/28/2016
40.	Xiaomi one-touch screen replacement software (小米一鍵換機軟件)	V1.0	2016SR060788	03/23/2016
41.	MIUI FM Radio software (小米電台軟件)	V1.0	2015SR116918	06/26/2015
42.	Software for Xiaomi Smart Home APP (小米智能家庭APP軟件)	V1.0	2015SR089041	05/23/2015
43.	Android-based OS software for Mi Tablets (小米安卓平板操作系統軟件)	V1.0	2014SR159071	10/23/2014
44.	Software of Redmi Jeejen App (紅米極簡模式軟件)	V1.0	2014SR197607	12/17/2014
45.	Software for Xiaomi NFC Smart Tag system (小米NFC碰碰貼系統軟件)	V1.0	2014SR091997	07/05/2014
46.	Xiaomi system software (小米系統軟件)	V1.0	2014SR060783	05/15/2014
47.	Mobile instant communication software of Miliao (for iPhone) (小米米聊iPhone平台手機即時通訊軟件)	V2.0	2014SR054052	05/05/2014
48.	Android-based OS software for Xiaomi mobile phones (for Southeast Asia) (小米安卓手機操作系統(東南亞版)軟件)	V2.1	2014SR017864	02/14/2014
49.	Mobile instant communication software of Miliao (for Android) (小米米聊Android平台手機社交通訊軟件)	V2.0	2014SR035177	03/29/2014
50.	Android-based OS software for Xiaomi mobile phones (小米安卓手機操作系統軟件)	V2.0	2013SR141237	12/09/2013
51.	Android-based OS software for Xiaomi mobile phones (小米安卓手機操作系統軟件)	V1.0	2012SR037797	05/11/2012
52.	Live video streaming software of "Kuaishipin" ("快視頻"互聯網短視頻播放軟件)	V1.0	2017SR212931	05/26/2017
53.	Xiangkan video software (Android version) (想看視頻軟件(Android版))	V1.0	2017SR233885	06/05/2017

No.	Copyright	Version	Registration Number	Registration Date (mm/dd/yyyy)
54.	Weiguan software (Android version) (圍觀軟件(Android版))	V1.0	2017SR252275	06/09/2017
55.	Cabinet software for new applications of Xiaomi (小米新應用技術櫃架軟件)	V1.0	2017SR290748	06/20/2017
56.	Gallery software (臉圖軟件)	V1.0	2017SR304474	06/23/2017
57.	MIJIA YOUPIN E-commence application software (米家有品電商應用軟件)	V1.0	2017SR378443	07/18/2017
58.	Xiaomi loan servicing software (Android version) (小米貸款軟件(Android版))	V1.0	2017SR575607	10/19/2017
59.	Xiaomi document storage software (小米文件存儲軟件)	V1.0	2017SR575965	10/19/2017
60.	Xiaomi structured storage software (小米結構化存儲軟件)	V1.0	2017SR575713	10/19/2017
61.	Global search software (全局搜索軟件)	V1.0	2017SR575615	10/19/2017
62.	MIJIA walkie-talkie APP software (iOS version) (米家對講機APP軟件(iOS版))	V1.0	2017SR149027	05/02/2017
63.	MIJIA walkie-talkie APP software (Android version) (米家對講機APP軟件(Android版))	V1.0	2017SR239065	06/06/2017
64.	Aiya Baobei system software (Android version) (哎呀寶貝系統軟件(Android版))	V1.0	2017SR582112	10/23/2017
65.	Xiaomi IoT open platform software (小米IoT開放平台軟件)	V1.0	2017SR601937	11/02/2017
66.	Xiaomi flexible message display system (小米彈性消息隊列系統)	V1.0	2017SR620605	11/13/2017
67.	Xiaomi ecoCloud management control panel software (小米生態雲管理控制台軟件)	V1.0	2017SR620770	11/13/2017
68.	Xiaomi browser software (小米瀏覽器軟件)	V1.0	2017SR649864	11/27/2017
69.	Xiaomi music software (小米音樂軟件)	V2.0	2017SR649802	11/27/2017
70.	Xiaomi media platform system (小米媒體平台系統)	V1.0	2017SR649873	11/27/2017

No.	Copyright	Version	Registration Number	Registration Date (mm/dd/yyyy)
71.	Xiaomi MIUI operating system software (小米MIUI操作系統軟件)	V5.0	2017SR633503	11/17/2017
72.	Xiaomi advertisement platform scheduling system (小米廣告平台排期系統)	V1.0	2017SR649847	11/27/2017
73.	Yimi advertisement system software (億米廣告投放系統軟件)	V1.0	2017SR649854	11/27/2017
74.	Pegasus disturbed key-value system software (Pegasus分布式鍵值系統軟件)	V1.0	2017SR634974	11/20/2017
75.	Xiaomi system N software (Android version) (小米系統N軟件 (Android版))	V1.0	2017SR642654	11/22/2017
76.	Xiaomi system M software (Android version) (小米系統M軟件(Android 版))	V1.0	2017SR642526	11/22/2017
77.	Xiaomi MetokNLP network positioning software (小米MetokNLP網絡定位軟件)	V1.0	2017SR655541	11/29/2017
78.	Miyue reader software (米閱小說軟件)	V1.0	2017SR692078	12/14/2017
79.	Xiaomi theme services system (小米主題服務系統)	V1.0	2017SR670644	12/06/2017
80.	Video player SDK software (視頻播放SDK軟件)	V1.0	2018SR071755	01/30/2018
81.	Xiaomi MIUI system software (小米MIUI系統軟件)	V1.0	2013SR051124	05/29/2013
82.	Xiaomi finance software (小米金融軟件)	V1.0	2015SR115582	06/25/2015
83.	Xiaomi payment system software (PC version) (小米支付系統軟件(PC版))	V1.0	2015SR070668	04/28/2015
84.	Xiaomi payment system software (Android version) (小米支付系統軟件 (Android版))	V1.0	2015SR069815	04/27/2015
85.	Gancuidai loan servicing software (乾脆貸貸款軟件)	V1.0	2017SR673143	12/07/2017

(d) Domain names

As of March 31, 2018, we owned the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registered Owner	Expiry Date (mm/dd/yyyy)
1.	mi.com	Xiaomi Inc.	11/05/2023
2.	xiaomi.com	Xiaomi Inc.	07/22/2020
3.	miui.com	Xiaomi Inc.	12/05/2022
4.	mipay.com	Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司)	07/03/2019
5.	miwifi.com	Xiaomi Inc.	02/21/2022
6.	miliao.com	Xiaomi Inc.	04/29/2020
7.	duokan.com	Beijing Duokan	02/25/2023
8.	xiaomi.cn	Xiaomi Inc.	06/18/2022
9.	miui.cn	Xiaomi Inc.	06/24/2020
10.	xiaomi.net	Xiaomi Inc.	03/24/2020
11.	mipay.net	Jiefu Ruitong Inc.	08/01/2020
12.	mioffice.cn	Xiaomi Inc.	07/20/2020
13.	mi.cn	Xiaomi Inc.	12/27/2019
14.	mijiayoupin.com	Beijing Mobile Software	12/01/2020
15.	wali.com	Beijing Wali Internet	05/01/2020

Save as aforesaid, as of March 31, 2018, there were no other intellectual property rights which were material to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Particulars of Directors' service contracts and appointment letters

(a) Executive Directors

Each of the executive Directors has entered into a service contract with our Company on [●] 2018. The initial term of their service contracts shall commence from the date of his or her appointment and continue for a period of three years after or until the third annual general meeting of the Company since the **[REDACTED]**, whichever is earlier (subject always to re-election as and when required under the Articles of Association), until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than one months' prior notice in writing.

No annual director's fees are payable to the executive Directors under the current arrangement.

(b) Non-executive Directors and independent non-executive Directors

Each of the non-executive Directors has entered into an appointment letter with our Company on [●], 2018. The initial term for their appointment letters shall commence from the date of their

appointments and shall continue for three years after or until the third annual general meeting of the Company since the **[REDACTED]**, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing. Under these appointment letters, each of the non-executive Directors will receive an annual director's fee of HK$[●].

Each of the independent non-executive Directors has entered into an appointment letter with our Company on [●], 2018. The initial term for their appointment letters shall be three years from the date of this **[REDACTED]** or until the third annual general meeting of the Company since the **[REDACTED]**, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive an annual director's fee of HK$[●].

2. Remuneration of Directors

(1) Remuneration and benefits in kind of nil, nil and nil were paid and granted by our Group to our Directors in respect of the years ended December 31, 2015, 2016 and 2017.

(2) Under the arrangements currently in force, our Directors will be entitled to receive remuneration and benefits in kind which, for the year ending December 31, 2018, is expected to be approximately [RMB][●] million in aggregate (excluding discretionary bonus).

(3) None of our Directors has or is proposed to have a service contract with the Company other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

3. Disclosure of interests

(a) Interests and short positions of our Directors in the share capital of our Company and its associated corporations following completion of the [REDACTED]

Immediately following completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the **[REDACTED]** ESOP are not exercised), the interests and/or short positions (as applicable) of our Directors and chief executives in the shares, underlying shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which he/she is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

(i) Interest in Shares of the Company

Name of Director or chief executive	Nature of interest	Relevant entity	Number and class of securities	Approximate percentage of interest of each of class of Shares in our Company immediately after the [REDACTED][(1)]
Lei Jun[(2)]	Beneficiary of a Trust (L)	Trust	429,518,772 Class A Shares	**[REDACTED]**%
			228,310,638 Class B Shares	**[REDACTED]**%
	Interest in controlled corporation (L)	Parkway Global Holdings Limited	429,518,772 Class A Shares	**[REDACTED]**%
			228,310,638 Class B Shares	**[REDACTED]**%
	Interest in controlled corporation (L)	Sunrise Vision Holdings Limited	429,518,772 Class A Shares	**[REDACTED]**%
			228,310,638 Class B Shares	**[REDACTED]**%
	Interest in controlled corporation (L)	Smart Mobile Holdings Limited	429,518,772 Class A Shares	**[REDACTED]**%
			222,388,475 Class B Shares	**[REDACTED]**%
	Interest in controlled corporations (L)	Smart Player Limited	5,922,163 Class B Shares	**[REDACTED]**%
Lin Bin[(3)]	Beneficial owner (L)	Company	9,123,361 Class B Shares	**[REDACTED]**%
	Trustee (L)	Lin Bin Trust	240,000,000 Class A Shares	**[REDACTED]**%
			30,000,000 Class B Shares	**[REDACTED]**%

Name of Director or chief executive	Nature of interest	Relevant entity	Number and class of securities	Approximate percentage of interest of each of class of Shares in our Company immediately after the [REDACTED](1)
Koh Tuck Lye(4)	Interest in controlled corporation (L)	Shunwei Ventures Limited	61,047,189 Class B Shares	**[REDACTED]**%
	Interest in controlled corporation (L)	Gifted Jade Limited	337,700 Class B Shares	**[REDACTED]**%

Note

(1) The table above is calculated on the basis that the total of **[REDACTED]** Shares will be in issue immediately after completion of the **[REDACTED]** (assuming [the **[REDACTED]** is not exercised and] the options granted under the **[REDACTED]** ESOP are not exercised) and subject to adjustments due to the Share Subdivision.

(2) Smart Mobile Holdings Limited and Smart Player Holdings Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn held by Parkway Global Holdings Limited. The entire interest in Parkway Global Holdings Limited is held through a trust which was established by Lei Jun (as the settlor) established for the benefit of Lei Jun and his family.

(3) Lin Bin holds **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares (taking into account the Share Subdivision) as trustee of the Lin Bin Trust, which was established by Lin Bin (as the settlor) a trust established for the benefit of Lin Bin and his family.

(4) Shunwei Ventures Limited is wholly-owned by Shunwei China Internet Fund, L.P., the general partner of which is Shunwei Capital Partners GP, L.P., the general partner of which is Shunwei Capital Partners GP Limited, which is owned by Gifted Ventures Limited as to 75%.
Gifted Jade Limited is wholly owned by Koh Tuck Lye.

(ii) Interest in associated corporations

Name of Director or chief executive	Nature of interest	Associated corporations	Percentage of shareholding in the associated corporation)
Lei Jun	Interest in controlled corporation (L)	Parkway Global Holdings Limited	100%
	Interest in controlled corporation (L)	Sunrise Vision Holdings Limited(1)	100%
	Interest in controlled corporation (L)	Smart Mobile Holdings Limited(1)	100%
	Interest in controlled corporation (L)	Shenzhen Pineapple Games Co., Ltd. (深圳市菠蘿游戲有限公司)	0%
	Interest in controlled corporation (L)	Zimi International Incorporation(2)	8.92%
Koh Tuck Lye	Interest in controlled corporation (L)	Zimi International Incorporation(2)	20.10%
	Interest in controlled corporation (L)	SmartMi International Ltd(3)	33.90%

Notes:

(1) Lei Jun is the beneficial owner of the entire interests in Smart Mobile Holdings Limited, and is deemed to be interested in the **[REDACTED]** Class A Shares and **[REDACTED]** Class B Shares (taking into account the Share Subdivision) held by Smart Mobile Holdings Limited under SFO. Lei Jun is the beneficial owner of the entire interests in Smart Player Limited, and is deemed to be interested in the **[REDACTED]** Class B Shares (taking into account the Share Subdivision) held by Smart Player Limited under SFO.

(2) As of the Latest Practicable Date, the Company held 20.09% of the equity interest of Zimi International Incorporation, and Zimi International Incorporation is therefore an associated corporation of the Company. Koh Tuck Lye and Lei Jun are ultimately interested in Zimi International Incorporation as to approximately 20.10% (20,098,050 series A preferred shares and 2,000,000 series B preferred shares) and approximately 8.9165% (being 9,803,900 ordinary shares), respectively.

(3) The Company is interested in 35.71% of the equity interest in SmartMi International Ltd, and therefore SmartMi International Ltd is an associated corporation of the Company. Koh Tuck Lye is ultimately interested in SmartMi International Ltd as to approximately 33.90% (being 37,680,000 series A-1 preferred shares and 4,000,000 series A-2 preferred shares).

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

For information on the persons who will, immediately following the completion of the **[REDACTED]** and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the **[REDACTED]** ESOP, having or be deemed or taken to have beneficial interests or short position in our Shares or underlying shares which would fall to be disclosed to our Company under the provisions of 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group, please see the section headed "Substantial Shareholders."

Save as set out above, as of the Latest Practicable Date, our Directors were not aware of any persons who would, immediately following the completion of the **[REDACTED]** and taking no account of any Shares which may be issued pursuant to the exercise of the options granted under the **[REDACTED]** ESOP, be interested, directly or indirectly, in 10% or more of the nominal of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group or had option in respect of such capital.

4. Disclaimers

Save as disclosed in this **[REDACTED]**:

(1) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of the Group;

(2) none of the Directors or the experts named in the section headed "—Other Information—Consents of Experts" below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this **[REDACTED]**, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(3) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any Shares in or debentures of the Company within the two years ended on the date of this **[REDACTED]**;

(4) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this **[REDACTED]** which is significant in relation to the business of the Group taken as a whole;

(5) taking no account of any Shares which may be taken up under the **[REDACTED]** and allotted and issued pursuant to the exercise of the options granted under the **[REDACTED]** ESOP, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) will, immediately following completion of the **[REDACTED]**, have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or (not being a member of the Group), be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and

(6) none of the Directors or chief executive of the Company has any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated

corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or will be required, pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange once the Shares are listed thereon.

D. SHARE OPTION SCHEMES

1. [REDACTED] ESOP

Summary

The following is a summary of the principal terms of the **[REDACTED]** ESOP of the Company as approved and adopted pursuant to the written resolutions of all shareholders of the Company dated May 5, 2011, superseded on August 24, 2012 and amended from time to time. The terms of the **[REDACTED]** ESOP are not subject to the provisions of Chapter 17 of the Listing Rules.

We have applied to the Stock Exchange and the SFC, respectively for, (i) a waiver from strict compliance with the disclosure requirements under Rule 17.02(1)(b) of the Listing Rules and paragraph 27 of Appendix IA to the Listing Rules; and (ii) an exemption under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the disclosure requirements of paragraph 10 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance. See the paragraph headed "Waiver and Exemption in relation to the **[REDACTED]** ESOP" in the section headed "Waivers From Strict Compliance With the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance" for more information.

(a) Purpose

The purpose of the **[REDACTED]** ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The **[REDACTED]** ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

(b) Who may join

Those eligible to participate in the **[REDACTED]** ESOP include employees, consultants, all members of the Board, and other individuals, as determined, authorized and approved by the Board or a committee authorized by the board (the "**Committee**"). The Committee may, from time to time, select from among all eligible individuals ("**Participants**") to whom awards in the form of options ("**Options**"), restricted share awards ("**Restricted Shares**") and restricted stock units ("**RSU**") (collectively "**Awards**"), will be granted and will determine the nature and amount of each option. No individual has any right to be granted Award pursuant to the **[REDACTED]** ESOP.

(c) Maximum number of Class B Shares with a par value of US$0.000025 each

The overall limit on the number of underlying shares which may be issued pursuant to the **[REDACTED]** ESOP is 251,307,455 Class B Shares with a par value of US$0.000025 each, subject to any adjustments for other dilutive issuances.

(d) Administration

The **[REDACTED]** ESOP is administered by the Board or the Committee who has the authority to grant or amend Awards to Participants other than any of the Committee members. Any grant or amendment of Awards to any Committee member requires an affirmative vote of a majority of the Board members who are not on the Committee. Subject to any specific designation in the **[REDACTED]** ESOP, the Committee has the exclusive power, authority and discretion to:

(i) designate Participants to receive Awards;

(ii) determine the type or types of Awards to be granted to each Participant;

(iii) determine the number of Awards to be granted and the number of underlying shares to which an option will relate;

(iv) determine the terms and conditions of any Award granted pursuant to the **[REDACTED]** ESOP, including, but not limited to, the exercise price, grant price, or purchase price, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an option, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an option, based in each case on such considerations as the Committee in its sole discretion determines;

(v) determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Class B Shares, or other property, or an Award may be canceled, forfeited, or surrendered;

(vi) prescribe the form of each Award Agreement (as defined below), which need not be identical for each Participant;

(vii) decide all other matters that must be determined in connection with an Award;

(viii) establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the **[REDACTED]** ESOP;

(ix) interpret the terms of, and any matter arising pursuant to, the **[REDACTED]** ESOP or any Award Agreement;

(x) make all other decisions and determinations that may be required pursuant to the **[REDACTED]** ESOP or as the Committee deems necessary or advisable to administer the **[REDACTED]** ESOP.

(e) Grant of Awards

The Committee is authorized to grant Awards to Participants in accordance with the terms of the **[REDACTED]** ESOP. Awards granted will be evidenced by an agreement ("**Award Agreement**") between the Company and the Participant. The Award Agreement includes additional provisions specified by the Committee. The Committee can determine the terms and conditions of the Award, including the grant or purchase price of Awards.

(f) Term of the* [REDACTED] *ESOP

The **[REDACTED]** ESOP commenced on August 24, 2012 (the "**Effective Date**") and will expire on the tenth anniversary of the Effective Date. Upon expiry of the **[REDACTED]** ESOP, any Award that is outstanding shall remain in force according to the terms of the **[REDACTED]** ESOP and the applicable Award Agreement.

(g) Options

(i) Exercise of option

The option may not be exercised until vested. The Committee shall determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting; provided that the term of any option granted under the **[REDACTED]** ESOP shall not exceed ten years, subject to a shareholder approval of extension of the exercise period for an option beyond ten years from the date of the grant. The Committee shall also determine any conditions, if any, that must be satisfied before all or part of an option may be exercised.

Once vested, the vested portion of the option may be exercised in whole or in any part, at any time, subject to the terms of the **[REDACTED]** ESOP and the Award Agreement.

(ii) Exercise price

The exercise price per share subject to an Option shall be determined by the Committee and set forth in the Award Agreement and may be a fixed or variable price related to the fair market value of the Shares.

The exercise price per Share subject to an Option may be amended or adjusted in the absolute discretion of the Committee, the determination of which shall be final, binding and conclusive. For the avoidance of doubt, to the extent not prohibited by applicable laws, rules and regulations, a downward adjustment of the exercise prices of Options mentioned in the preceding sentence shall be effective without the approval of the Company's shareholders or the approval of the affected Participants.

(iii) Transfer restrictions

Unless approved by the Committee, the Participant shall not transfer any shares issued upon the exercise of any Options, or any interest therein, to any person or entity that is a competitor of the Company, as determined by the Company in its sole discretion.

The Participant shall give written notice to the Company setting forth such desire to transfer and at least the name and address of the proposed transferee. Upon receipt of the notice, the Company shall (i) have an assignable option to purchase any or all of such Shares, or (ii) approve or disapprove such transfer.

(iv) Effect of termination of employment or service for cause

Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient is terminated by the Service Recipient for cause, the Participant's Options will terminate and be forfeited for no consideration upon such termination, whether or not the Option is then vested and/or exercisable, except as otherwise determined by the Committee in its sole discretion. The Shares subject to the terminated portion of the Option shall revert to the Plan.

(v) Rights on death or disability

Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient terminates as a result of the Participant's death or disability, (i) the Participant (or the legal representatives or beneficiary, in the case of disability or death, respectively), will be entitled to exercise the option in whole or in part within a period of 12 months following the date of the Participant's termination of employment to the extent that such options were vested and exercisable on that date, (ii) options that are not vested and exercisable on that date shall terminate upon the Participant's termination of employment or service on account of death or disability, and (iii) options that are exercisable for the 12-month period following the Participant's termination of employment and not exercised shall terminate at the close of business on the last day of the 12-month period.

(vi) Rights on termination of employment of service otherwise than for cause or as a result of death of disability

Unless otherwise provided in the Award Agreement, if a Participant's employment by or service to the Service Recipient terminates for any reason or for no reason at all, other than a termination for cause or death or disability mentioned above, the Participant will have until the date that is 90 days after the Participant's termination, or within such other period of time as is determined by the Committee in its sole discretion (but no later than the expiration of the term of such Option as set forth in the Award Agreement) subject to the satisfaction of any condition the Committee seems fit, to exercise his or her Options (or portion thereof) to the extent that such Options were vested and exercisable on the date of the Participant's termination of Employment or service. If the Participant fails to exercise his or her Option within the said time period, the Option will terminate, and the underlying shares of the Option will revert to the Plan.

The Options, to the extent not vested and exercisable on the date of the Participant's termination of Employment or service, shall terminate and be forfeited upon the Participant's termination of Employment or service. The Shares subject to the terminated portion of the Option shall revert to the **[REDACTED]** ESOP.

(h) Restricted Shares

(i) Issuance and restrictions

Restricted Shares shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Shares, to transfer the Restricted Shares, or the right to receive dividends on the Restricted Share). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

Unless the Committee determines otherwise, Restricted Shares shall be held by the Company as escrow agent until the restrictions on such Restricted Shares have lapsed.

(ii) Forfeiture and repurchase

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period,

Restricted Shares that are at that time subject to restrictions shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (a) provide in any Award Agreement that restrictions or forfeiture and repurchase conditions relating to Restricted Shares will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to Restricted Shares.

(iii) Removal of restrictions

Except as otherwise provided in the **[REDACTED]** ESOP, Restricted Shares granted shall be released from escrow as soon as practicable after the last day of the period of restriction. The Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the shares shall be freely transferable by the Participant, subject to applicable legal restrictions.

(i) RSUs

(i) Performance objectives and other terms

The Committee, in its discretion, may set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of RSUs that will be paid out to the Participants.

(ii) Form and timing of payment of RSUs

At the time of grant, the Committee shall specify the date or dates on which the RSUs shall become fully vested and nonforfeitable. Upon vesting, the Committee, in its sole discretion, may pay Restricted Stock Units in the form of cash, in Shares or in a combination thereof.

(iii) Forfeiture and repurchase

Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, RSUs that are at that time unvested shall be forfeited or repurchased in accordance with the Award Agreement; provided, however, the Committee may (i) provide in any Award Agreement that restrictions or forfeiture and repurchase conditions relating to RSUs will be waived in whole or in part in the event of terminations resulting from specified causes, and (ii) in other cases waive in whole or in part restrictions or forfeiture and repurchase conditions relating to RSUs.

(j) Limits on Transfer

Unless otherwise provided in the **[REDACTED]** ESOP, by applicable law and by the Award Agreement, as the same may be amended, and subject to certain limited exceptions, all Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; Awards will be exercised only by the Participant; and amounts payable or shares issuable pursuant to an Award will be delivered only to (or for the account of), and, in the case of Class B Shares, registered in the name of, the Participant.

(k) Adjustments

In the event of any share dividend, share split, combination or exchange of Class B Shares, amalgamation, arrangement or consolidation, spin-off, recapitalization or other distribution (other than

normal cash dividends) of Company assets to its shareholders, or any other change affecting the shares or the price of a share, the Committee shall make such proportionate adjustments, if any, as the Committee in its discretion may deem appropriate to reflect such change with respect to (i) the aggregate number and type of shares that may be issued under the **[REDACTED]** ESOP, (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto), and (iii) the grant or exercise price per share for any outstanding Awards under the **[REDACTED]** ESOP.

(l) Amendment, modification and termination

With the approval of the Board, the Board and/or the Committee may, at any time or from time to time, terminate, amend or modify the **[REDACTED]** ESOP.

Except with respect to amendments made pursuant to the above, no termination, amendment, or modification of the **[REDACTED]** ESOP shall adversely affect in any material way any Awards previously granted pursuant to the **[REDACTED]** ESOP until mutually agreed by the Company and the Participant.

Outstanding options granted

The proposal to grant the options under the **[REDACTED]** ESOP to the grantees as set out below has been approved by the Board. The overall limit on the number of underlying Class B Shares pursuant to the **[REDACTED]** ESOP is 251,307,455 Class B Shares (before Share Subdivision). The aggregate number of underlying Shares pursuant to the outstanding options and restricted share units ("RSUs") granted under the **[REDACTED]** ESOP is **[REDACTED]** Shares, representing approximately **[REDACTED]**% of the issued Class B Shares immediately following the completion of the **[REDACTED]** and approximately **[REDACTED]**% of the total issued Shares immediately following the completion of the **[REDACTED]**, on a one share, one vote basis (assuming [the **[REDACTED]** is not exercised and] the options granted under the **[REDACTED]** ESOP are not exercised). As at the Latest Practicable Date, we had conditionally granted options to over 5,500 participants under the **[REDACTED]** ESOP. All the options and RSUs under the **[REDACTED]** ESOP were granted between April 1, 2010 and May 1, 2018 (both days inclusive) and the Company will not grant further options and RSUs under the **[REDACTED]** ESOP after the **[REDACTED]**. The exercise price of all the options and RSUs granted under the **[REDACTED]** ESOP is between US$nil to US$3.44.

As of the Latest Practicable Date, no options had been granted to Directors.

The table below shows the details of options granted to members of the directors and the senior management under the **[REDACTED]** ESOP which are outstanding.

	Name	Address	Position	Exercise Prices (US$)	Number of Class B ordinary shares of par value of US$0.000025 each underlying outstanding options	Dates of grant	Vesting period	Approximate percentage of issued Shares immediately after completion of the [REDACTED]
	Options							
1.	Chew Shou Zi	Flat B, 31/F, Block 6, Century Gateway, Tuen Mun, New Territories, Hong Kong	Senior Vice President, Chief Financial Officer	0-1.0225	5,000,000	August 1, 2015, January 1, 2018	5-10 years	**[REDACTED]**%
2.	Hong Feng	Room 1104, No. 7, Lane 1910 Xinzha Road Jing'an District Shanghai	Senior Vice President, Internet Services	1.0225	1,000,000	January 1, 2018	5 years	**[REDACTED]**%
3.	Manu Kumar Jain	B-20, RD Apartments, Plot No. 20, Sector 6, Dwarka, New Delhi, India	Vice President, General Manager of India	1.0225-3.44	2,300,000	June 1, 2014, May 1, 2015, April 1, 2017, January 1, 2018, February 1, 2018	1-10 years	**[REDACTED]**%
4.	Liu De	Room 608, Building No. 8 Dongnei Street Dongcheng District Beijing	Senior Vice President, Ecosystem	1.0225	1,000,000	January 1, 2018	5 years	**[REDACTED]**%
5.	Qi Yan	Room 1102, Gate No. 4 Building No.1, Courtyard A82 Xueyuan South Road Haidian District Beijing	Senior Vice President, Internal Operations and Public Affairs	0-1.0225	1,900,000	February 1, 2013, December 1, 2013, January 1, 2018	4-5 years	**[REDACTED]**%
6.	Shang Jin	Room 210, Building No.138 Dayoubeili Haidian District Beijing	Vice President, Interactive Entertainment	0-1.0225	2,000,000	October 1, 2014, January 1, 2018	5-10 years	**[REDACTED]**%

	Name	Address	Position	Exercise Prices (US$)	Number of Class B ordinary shares of par value of US$0.000025 each underlying outstanding options	Dates of grant	Vesting period	Approximate percentage of issued Shares immediately after completion of the [REDACTED]
7.	Wang Chuan	Room 323, 3/F, Building No. 520 No. 70 Yongding Road Haidian District Beijing	Senior Vice President, TV Business	0-1.0225	5,000,000	December 1, 2014, December 1, 2018	5 years	**[REDACTED]**%
8.	Wang Lingming	Room 303, Block One Building No. 2, Oak Bay II Qinghe Street Haidian District Beijing	Vice President, Sales and Services	1.0225	920,000	April 1, 2017, November 1, 2017, January 1, 2018	5-10 years	**[REDACTED]**%
9.	Wang Xiang	Room 1252, Building No. 38 Xiaonanzhuang Haidian District Beijing	Senior Vice President, Global Business	0-1.0225	2,000,000	August 1, 2015, February 1, 2017, January 1, 2018	5-10 years	**[REDACTED]**%
10.	Zhang Feng	No. 96, Lane 155 Huake Road Qingpu District Shanghai	Vice President, Supply Chain	1.0225	1,000,000	November 1, 2017	5 years	**[REDACTED]**%

Notes

(1) Calculated on a one share one vote basis, [assuming that the **[REDACTED]** is not exercised and] assuming the options granted under the **[REDACTED]** ESOP are not exercised.

The table below shows the details of options granted to individuals, other than members of the directors and senior management, under the **[REDACTED]** ESOP which are outstanding.

Total number of grantees	Exercise Prices (US$)	Number of Class B ordinary shares of par value of US$0.000025 each underlying outstanding options	Dates of grant	Vesting period	Approximate percentage of issued Shares immediately after completion of the [REDACTED]
Over 5,500	0-3.44	222,380,097	April 1, 2010-May 1, 2018	1-10 years	**[REDACTED]**%

Notes

(1) Calculated on a one share one vote basis, [assuming that the **[REDACTED]** is not exercised and] assuming the options granted under the **[REDACTED]** ESOP are not exercised subject to adjustments as a result of the Share Subdivision.

2. [REDACTED] Share Option Scheme

The following is a summary of the principal terms of the share option scheme conditionally adopted by the resolutions in writing of the shareholders of the Company passed on [●] 2018 (the "**[REDACTED] Share Option Scheme**"). The terms of the **[REDACTED]** Share Option Scheme will be governed by Chapter 17 of the Listing Rules.

(a) Purpose of the [REDACTED] *Share Option Scheme*

The purpose of the **[REDACTED]** Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and shareholders of the Company as a whole. The **[REDACTED]** Share Option Scheme will provide our Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

(b) Selected participants to the [REDACTED] *Share Option Scheme*

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to our Group is entitled to be offered and granted options. However, no individual who is resident in a place where the grant, acceptance or exercise of options pursuant to the **[REDACTED]** Share Option Scheme is not permitted under the laws and regulations of such place or where, in the view of the Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

(c) Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the **[REDACTED]** Share Option Scheme and any other schemes is **[REDACTED]**, being no more than 10% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the "**Option Scheme Mandate Limit**") (excluding any Shares which may be issued pursuant to the exercise of the **[REDACTED]** and the options granted under the Share Option Schemes[and grants under the Share Award Scheme]). Options which have lapsed in accordance with the terms of the rules of the **[REDACTED]** Share Option Scheme (or any other share option schemes of the Company) shall not be counted for the purpose of calculating the Option Scheme Mandate Limit.

The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the **[REDACTED]** Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Shares in issue from time to time (the "**Option Scheme Limit**"). No options may be granted under any schemes of our Company (or its subsidiaries) if this will result in the Option Scheme Limit being exceeded.

The Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of the shareholders of the Company in general meeting and/or such other requirements prescribed under the Listing Rules from time to time. However, the refreshed Option Scheme Mandate Limit cannot

exceed 10% of the Shares in issue as at the date of such approval. Options previously granted under the **[REDACTED]** Share Option Scheme and any other share option schemes of our Company (and to which provisions of Chapter 17 of the Listing Rules are applicable) (including those outstanding, canceled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Option Scheme Mandate Limit.

Our Company may also grant options in excess of the Option Scheme Mandate Limit, provided such grant is to specifically identified selected participant and is first approved by shareholders of the Company in general meeting.

(d) Maximum entitlement of a grantee

Unless approved by shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted under the **[REDACTED]** Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue (the "**Individual Limit**"). Any further grant of options to a selected participant which would result in the aggregate number of Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, canceled and outstanding options) in the 12 month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to separate approval of shareholders of the Company (with such selected participant and his associates abstaining from voting).

(e) Performance target

The **[REDACTED]** Share Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(f) Subscription price

The amount payable for each Share to be subscribed for under an option ("**Subscription Price**") in the event of the option being exercised shall be determined by the Board but shall be not less than the greater of:

(i) the closing price of a Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;

(ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share on the date of grant.

(g) Rights are personal to grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the **[REDACTED]** Share Option Scheme.

(h) Options granted to directors or substantial shareholders of the Company

Each grant of options to any director, chief executive or substantial shareholder of our Company (or any of their respective associates) must first be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a proposed recipient of the grant of options. Where any grant of options to a substantial shareholder or an independent non-executive Director (or any of their respective associates) would result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million (or such other higher amount as may from time to time be specified by the Stock Exchange),

such further grant of options must also be first approved by the shareholders of the Company (voting by way of poll) in a general meeting. In obtaining the approval, our Company shall send a circular to the shareholders of the Company in accordance with and containing such information as is required under the Listing Rules. All connected persons of our Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the shareholders of the Company in connection therewith.

(i) Grant offer letter and notification of grant of options

An offer shall be made to selected participants by a letter in duplicate which specifies the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Board or its delegate(s) such other terms either on a case basis or generally.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant thereof, which must be received by the Company within 20 business days from the date on which the offer letter is delivered to the grantee.

Any offer may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares or a multiple thereof. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that selected participant, it shall be deemed to have been irrevocably declined.

(j) Restriction of grant of options

No offer shall be made and no option shall be granted to any selected participant in circumstances prohibited by the Listing Rules or at a time when the selected participant would or might be prohibited from dealing in the Shares by the Listing Rules or by any applicable rules, regulations or law. No offer shall be made and no option shall be granted to any selected participant where such person is in possession of any unpublished inside information in relation to our Company until such inside information has been published in an announcement in accordance with the Listing Rules. Furthermore, no offer shall be made and no option shall be granted:

(i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(ii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

Such period will also cover any period of delay in the publication of any results announcement.

(k) Time of exercise of an option

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board may from time to time determine stating that the option is thereby exercised and the number of Shares in respect of which it is exercised.

(l) Cancelation of options

Any breaches of the rules of the **[REDACTED]** Share Option Scheme by a grantee may result in the options granted to such grantee being canceled by the Company. Any options granted but not exercised may be canceled if the grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the **[REDACTED]** Share Option Scheme (excluding the canceled options) and in compliance with the terms of the **[REDACTED]** Share Option Scheme.

(m) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the period within which an option may be exercised, which is to be determined and notified by the Board to each grantee at the time of making an offer, and shall not expire later than ten years from the date of grant (the "**Option Period**");

(ii) the expiry of any of the periods for exercising the option as referred to in paragraphs (p), (q) and (r) below; and

(iii) the date on which the grantee commits a breach of the rules of the **[REDACTED]** Share Option Scheme.

(n) Voting and dividend rights

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or Shares that are the subject of options that have not been exercised.

(o) Effects of alterations in the capital structure of the company

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of Shares comprised in each option so far as unexercised; and/or

(ii) the **[REDACTED]**; and/or

(iii) the method of exercise of the option,

or any combination thereof, as the auditors or a financial advisor engaged by our Company for such purpose shall, at the request of the Company, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of our Company as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a Share to be issued at less than its nominal value. The capacity of the auditors or financial advisor (as the case may be) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on our Company and the grantees. The costs of the auditors or financial advisor (as the case may be) shall be borne by our Company.

(p) Retirement, death or permanent physical or mental disability of an selected participant

If a grantee ceases to be selected participant by reason of (i) death of the grantee, (ii) termination of the grantee's employment or contractual engagement with the Group or its affiliate by reason of his/her permanent physical or mental disablement, (iii) retirement of the grantee, the option may be exercised within the Option Period, or such other period as the Board or its delegate(s) may decide in their sole discretion.

In the case of death of a grantee, the option may be exercised within that period by the personal representatives of the grantee. In the case where a grantee no longer has any legal capacity to exercise the option, the option may be exercised within that period by the persons charged with the duty of representing the grantee under the relevant laws in Hong Kong. If the option is not exercised within the time mentioned above, the option shall lapse.

If a grantee, being an employee whose employment is terminated by the Group or its affiliate (as applicable) by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the grantee having been convicted of any criminal offense involving his integrity or honesty, the option shall immediately lapse.

If a grantee is declared bankrupt or becomes insolvent or makes any arrangements or composition with his creditors generally, the option shall immediately lapse.

If a grantee being an employee ceases to be selected participant due to termination of his or her employment or contractual engagement with the Group by reason of redundancy, the option may be exercised within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

If a grantee ceases to be selected participant other than in any of the circumstances described above, unless otherwise provided in the option agreement, a grantee may exercise his or her option within three months of such cessation or within the Option Period, whichever is the shorter, or such other period as the Board or its delegate(s) may decide in their sole discretion.

(q) Rights on takeover and schemes of compromise or arrangement

If a general offer by way of takeover is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), and the offer becomes or is declared unconditional in all respects, the grantee shall be entitled to exercise the option (to the extent not already exercised) at any time within one month (or such other period as the Board or its delegate(s) may decide in their sole discretion) after the date on which the offer becomes or is declared unconditional. If the option is not exercised within the time specified, the option shall lapse.

If a compromise or arrangement between the Company and its members or creditors is proposed, our Company shall give notice to the grantee on the same date as it despatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may until the expiry of the period commencing with such date and ending with earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the **[REDACTED]** Share Option Scheme. Our Company may require the grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position, as nearly as possible, as would have been the case had such Shares been subject to such compromise or arrangement. If the option is not exercised within the time specified, the option shall lapse.

(r) Rights on a voluntary winding up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees (together with a notice of the existence of the provisions of this sub-paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid. If the option is not exercised within the time specified, the option shall lapse.

(s) Ranking of shares

The Shares to be allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of the Company and subject to all the provisions of the memorandum and

articles of association of the Company for the time being in force and will rank pari passu with the other fully paid Shares in issue on the date the name of the grantee is registered on the register of members of the Company or if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of the Company) declared or recommended or resolved to be paid to the shareholders of the Company on the register on a date prior to such registration.

(t) Duration

The **[REDACTED]** Share Option Scheme shall be valid and effective for the period of ten years commencing on the **[REDACTED]** (after which, no further options shall be offered or granted under the **[REDACTED]** Share Option Scheme), but in all other respects the provisions of the **[REDACTED]** Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the **[REDACTED]** Share Option Scheme.

(u) Alteration of the* [REDACTED] *Share Option Scheme

The Board may subject to the rules of the **[REDACTED]** Share Option Scheme amend any of the provisions of the **[REDACTED]** Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the **[REDACTED]** Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Those specific provisions of the **[REDACTED]** Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of selected participants, and no changes to the authority of the administrator of the **[REDACTED]** Share Option Scheme in relation to any alteration of the terms of the **[REDACTED]** Share Option Scheme shall be made, without the prior approval of shareholders of the Company in general meeting. Any alterations to the terms of the **[REDACTED]** Share Option Scheme which are of a material nature, or any change to the terms and conditions of options granted, must also, to be effective, be approved by the shareholders of the Company in general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the **[REDACTED]** Share Option Scheme. The options and the **[REDACTED]** Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules. Any change to the authority of the Directors or scheme administrators in relation to any alternation to the terms of the **[REDACTED]** Share Option Scheme must be approved by shareholders of the Company in general meeting.

Notwithstanding any provisions to the contrary in the **[REDACTED]** Share Option Scheme, if on the relevant date of exercise there are restrictions or conditions imposed by the relevant laws and regulations to which the grantee is subject and the grantee has not obtained approval, exemption or waiver from the relevant regulatory authorities for the subscription of and dealing in the Shares, the grantee may sell the options to such transferee, subject to the approval by the Board, which shall not unreasonably withhold or delay such approval. In the event that the options are transferred to a connected person of our Company, no Shares shall be allotted and issued upon the exercise of the options by a connected person of our Company unless the Board is satisfied that the allotment and

issue of Shares will not trigger any breach of the Listing Rules, the Articles of Association, the Companies Law or the Takeovers Code.

(v) Termination

The shareholders of the Company by ordinary resolution in general meeting or the Board may at any time resolve to terminate the operation of the **[REDACTED]** Share Option Scheme prior to the expiry of the **[REDACTED]** Share Option Scheme and in such event no further options will be offered or granted but the provisions of the **[REDACTED]** Share Option Scheme shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the **[REDACTED]** Share Option Scheme. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the **[REDACTED]** Share Option Scheme and remain unexercised and unexpired immediately prior to the termination of the operation of the **[REDACTED]** Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the **[REDACTED]** Share Option Scheme.

Details of the options granted, including options exercised or outstanding, under the **[REDACTED]** Share Option Scheme shall be disclosed in the circular to the shareholders of the Company seeking approval of the new scheme established after the termination of the **[REDACTED]** Share Option Scheme.

3. The XMF Share Option Scheme I

The following is a summary of the principal terms of the XMF Share Option Scheme I effective from [●] 2018. This scheme is not subject to Chapter 17 of the Listing Rules as no options will be granted under this scheme after the **[REDACTED]**.

(a) Definitions

Unless otherwise defined below, terms used in this sub-section shall the same meaning as those defined in the section headed "Definitions":

"Xiaomi Finance Group"	Xiaomi Finance and its subsidiaries and consolidated affiliated entities
"XMF Board"	the board of directors of Xiaomi Finance or a committee thereof duly appointed for the purpose of administering the XMF Share Option Scheme I
"XMF Shares"	ordinary share(s) in the share capital of Xiaomi Finance, or if there has been a subsequent sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of Xiaomi Finance, the shares in the ordinary share capital of Xiaomi Finance resulting from such sub-division, reduction, consolidation, reclassification or reconstruction;

(b) Purpose

The purpose of the XMF Share Option Scheme I is to provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected

participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders. The XMF Share Option Scheme I will provide Xiaomi Finance with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the selected participants.

(c) Who may join

Any directors and employees of any member of Xiaomi Finance (including nominees and/or trustees of any employee benefit trusts established for them) or any associates who the XMF Board considers to have contributed or will contribute to the Xiaomi Finance Group, may, at the sole discretion of XMF Board (or a duly authorized committee), be granted options to subscribe for the XMF Shares.

The eligibility of persons to the grant of any option shall be determined by the XMF Board (or a duly authorized committee), from time to time on the basis of their opinion as to the participant's contribution to the development and growth of the Xiaomi Finance Group.

(d) Maximum number of Shares

The overall limit on the number of XMF Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme I at any time shall not exceed [42,070,000] XMF Shares subject to any adjustments for share subdivisions or other dilutive issuances.

(e) Performance targets

Unless the XMF Board (or a duly authorized committee) otherwise determines and states in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the XMF Share Option Scheme I can be exercised.

(f) Subscription price

The subscription price per XMF Share in relation to each option shall be determined by the XMF Board and shall not be less than the per XMF Share valuation based on the most recent appraised value of Xiaomi Finance (assuming that the XMF Restructuring had been completed) prior to the adoption of the XMF Share Option Scheme I.

(g) Time of acceptance and exercise of an option

An option may be accepted by a participant within [30] business days from the date on which the letter containing the offer is delivered to that participant.

An option may be exercised in accordance with the terms of the XMF Share Option Scheme I at any time during a period to be determined and notified by the XMF Board to each grantee at the time of grant, which shall end not later than [20] years from the date of grant of the option.

(h) Cancelation of options granted

Any options granted but not exercised may be canceled if the relevant grantee so agrees in writing. Issuance of new options to the same grantee may only be made if there are unissued options available under the XMF Share Option Scheme I (excluding the canceled options) and in compliance with the terms of the XMF Share Option Scheme I.

(i) Lapse of an option

An option shall lapse automatically (to the extent not already exercised) on the expiry of the option period stated in the offer of grant of the option.

(j) Scheme life

The XMF Share Option Scheme I will remain in force from [●], the date on which the XMF Share Option Scheme I was adopted, until the Latest Practicable Date, both dates inclusive. No further options will be offered or granted after the Latest Practicable Date, but the provisions of the XMF Share Option Scheme I shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of this scheme.

(k) Rights on death

If a grantee of an option ceases to be a participant by reason of death, before exercising the option in full, the personal representative(s) of the grantee shall be entitled to exercise the option in whole or in part during the option period.

(l) Adjustments

In the event of an alteration in the capital structure of Xiaomi Finance whilst any option remains exercisable by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of Xiaomi Finance, such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of XMF Shares comprised in each option so far as unexercised;

(ii) the subscription price;

(iii) the method of exercise of the option; or

(iv) any combination thereof,

as the auditors or a financial advisor engaged by Xiaomi Finance for such purpose shall, at the request of Xiaomi Finance, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of Xiaomi Finance (or as nearly as possible but not greater than the same proportion of the equity capital of Xiaomi Finance) as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made that will enable a XMF Share to be issued at less than its nominal value. The capacity of the auditors or financial advisor (as the case may be) in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on Xiaomi Finance and the grantees. The costs of the auditors or financial advisor (as the case may be) shall be borne by Xiaomi Finance.

Outstanding options granted

The table below sets forth the details of the option granted under the XMF Share Option Scheme I:

Name of grantee	Address	Subscription price per XMF Share	Number of XMF Shares represented by the option granted	Date of grant	Option period	Approximate percentage of issued XMF Shares
Lei Jun	A-19E Huatingjiayuan 6 Beisihuan Middle Road Chaoyang District Beijing China	[●]	[42,070,000]	[●]	[20 years] from the date of grant	[42.07%] (or [16.8280%] assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised)

No further options under the XMF Share Option Scheme I will be granted after the **[REDACTED]**.

4. The XMF Share Option Scheme II

The following is a summary of the principal terms of the XMF Share Option Scheme II approved by the XMF Shareholder (which was, at the relevant time, our Company) and our Shareholders to take effect upon the **[REDACTED]**. This scheme is subject to Chapter 17 of the **[REDACTED]** Rules as we expect that options will be granted under this scheme after the **[REDACTED]**. The XMF Share Option Scheme II is not in full compliance with the requirements under Chapter 17 of the **[REDACTED]** Rules. We have applied for [, and the Stock Exchange has granted], certain waivers described in the section headed "Waivers from Compliance with the **[REDACTED]** and Exemptions from the Companies (Winding up and Miscellaneous Provisions) Ordinance—Waivers in Relation to the XMF Share Option Scheme II."

(a) Definitions

Unless otherwise defined below, terms used in this sub-section shall the same meaning as those defined in the section headed "Definitions."

"Fair Market Value"	(i) with respect to the ordinary shares in the capital of Xiaomi Finance, the closing price of a share as stated in the daily quotations sheet of the principal stock market or exchange on which the shares are quoted or traded, or if the shares are not so quoted or traded, fair market value of a share as determined by the XMF Board; and (ii) with respect to any property other than the ordinary shares in the capital of Xiaomi Finance, the fair market value of such property determined by such methods or procedures as shall be established from time to time by the XMF Board

"XMF Scheme Adoption Date"	the date on which **[REDACTED]** in the Shares of the Company commence on the Stock Exchange
"XMF Eligible Person"	has the meaning defined in paragraph 3 below
"Xiaomi Finance Group"	Xiaomi Finance and its subsidiaries
"XMF Board"	the board of directors of Xiaomi Finance or where applicable, a committee duly formed to administer matters in relation to the XMF Share Option Scheme II
"XMF Option Period"	has the meaning defined in paragraph 13 below
"XMF Shares"	share(s) in the share capital of Xiaomi Finance, or, if there has been a sub-division, consolidation, re-classification or re-construction of the share capital of Xiaomi Finance, shares forming part of the share capital of Xiaomi Finance as shall result from as such sub-division, consolidation, re-classification or re-construction
"XMF Subscription Price"	has the meaning defined in paragraph 7 below
"XMF Shareholder(s)"	holder(s) of the XMF Shares
"XMF Option Scheme Limit"	has the meaning defined in paragraph 4 below
"XMF Option Scheme Mandate Limit"	has the meaning defined in paragraph 4 below

(b) Purpose

Xiaomi Finance is in an early stage of development and primarily focuses on start-up business in the financial technology industry (see also "History, Reorganization and Corporate Structure—Restructuring of Our Finance Related Business"). In light of the novelty and competiveness of the industry in which Xiaomi Finance operates in, we believe that the "employee-owned and managed" development model would be conducive to the recruitment and retention of highly sought-after talent in the financial technology industry, and in turn the long-term growth of Xiaomi Finance. It is our intention for management/employees of Xiaomi Finance to hold a significant stake in Xiaomi Finance going forward. The purpose of the XMF Share Option Scheme II is to provide XMF Eligible Persons with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the XMF Eligible Person to work towards enhancing the value of Xiaomi Finance with an entrepreneurial mind set over the long term. The XMF Share Option Scheme II will provide a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to XMF Eligible Persons.

(c) XMF Eligible Persons

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any

member of the Xiaomi Finance Group or any of the Xiaomi Finance Group's affiliates who the XMF Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to the Xiaomi Finance Group is entitled to be offered and granted options ("**XMF Eligible Person(s)**").

For the purpose of the XMF Share Option Scheme II, options may be granted to any company controlled by one or more XMF Eligible Person(s) or any discretionary object of an XMF Eligible Person that is a discretionary trust.

However, no individual who is resident in a place where the grant, acceptance, vesting or exercise of options pursuant to the XMF Share Option Scheme II is not permitted under the laws and regulations of such place or where, in the view of the XMF Board or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

(d) Maximum number of XMF Shares

The total number of XMF Shares that may be issued upon exercise of all options to be granted under the XMF Share Option Scheme II and any other share option schemes of Xiaomi Finance is [150,000,000], being no more than [150]% of the XMF Shares in issue on the XMF Scheme Adoption Date (or 60% of the XMF Shares assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised) (the "**XMF Option Scheme Mandate Limit**"). Options that have lapsed in accordance with the terms of the rules of the XMF Share Option Scheme II (or any other share option schemes of Xiaomi Finance) shall not be counted for the purpose of calculating the XMF Option Scheme Mandate Limit.

The overall limit on the number of XMF Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme II and any other share option schemes of Xiaomi Finance at any time must not exceed [150]% of the XMF Shares in issue from time to time (or 60% of the XMF Shares assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised) (the "**XMF Option Scheme Limit**"). No options may be granted under any schemes of Xiaomi Finance if this will result in the XMF Option Scheme Limit being exceeded.

The XMF Option Scheme Mandate Limit may be refreshed at any time subject to prior approval of the XMF Shareholders in general meeting and, for so long as Xiaomi Finance remains our subsidiary, prior approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules or by the Stock Exchange from time to time. However, the XMF Option Scheme Mandate Limit as refreshed cannot exceed [150]% of the XMF Shares in issue (or 60% of the XMF Shares assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised) as at the date of such approval of XMF Shareholders or our Shareholders, whichever is later. Options previously granted under the XMF Share Option Schemes and any other share option schemes of Xiaomi Finance (including those outstanding, canceled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed XMF Option Scheme Mandate Limit.

Notwithstanding the foregoing, Xiaomi Finance may seek separate approval of the XMF Shareholders in general meeting, and, for so long as Xiaomi Finance remains our subsidiary, our Shareholders in general meeting for granting options beyond the XMF Option Scheme Mandate Limit,

provided such grant is to XMF Eligible Person specifically identified by Xiaomi Finance before the aforesaid shareholders' meetings where such approvals are sought.

(e) Maximum entitlement of a grantee

There is no maximum entitlement of a grantee under the XMF Share Option Scheme II, save that no options shall be grant to Lei Jun (or entities controlled by him) if such grant would result in Lei Jun's effective interest in Xiaomi Finance exceeding [28.0467]% (being the effective interest of Lei Jun in the share capital of our Company as of the Latest Practicable Date). Such assessment would be made on a fully diluted basis, assuming exercise in full of any options in respect of the XMF Shares held by Lei Jun (or entities controlled by him) and any other grantees.

(f) Performance target

The XMF Share Option Scheme II does not set out any performance targets that must be achieved before the options may be exercised. However, the XMF Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(g) Subscription price

The price per XMF Share at which a grantee may subscribe for XMF Shares on the exercise of an option under the XMF Share Option Scheme II shall be the "**XMF Subscription Price**."

(i) The XMF Board shall determine the XMF Subscription Price in relation to each option at the time of grant and specify the XMF Subscription Price in the grant offer letter, provided that, subject to circumstances described below, the XMF Subscription Price shall not be less than the nominal value of a XMF Share or the per XMF Share valuation based on the most recent appraised value of Xiaomi Finance (assuming that the XMF Restructuring had been completed) prior to the Adoption Date.

(ii) In the event that the XMF Board resolves to seek a separate listing of the XMF Shares on any established stock exchange (including the Stock Exchange), for so long as Xiaomi Finance is a subsidiary of our Company, the XMF Subscription Price of any options granted after such resolution to the listing date of the Xiaomi Finance shall not be lower than the nominal value of a XMF Share or the new issue price (if any). In particular, the XMF Subscription Price of any options granted during the period commencing six (6) months before the lodgment of the listing application and up to the listing date of Xiaomi Finance shall not be lower than the new issue price (if any).

Our legal advisors as to Cayman Islands laws have advised that the above pricing mechanisms for the options granted under the XMF Share Option Scheme II do not contravene the memorandum and articles of association of the Xiaomi Finance or any relevant laws and regulations of the Cayman Islands.

(h) Rights are personal to grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option,

except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the XMF Share Option Scheme II.

(i) Grants to directors and senior management members of our Company

For so long as Xiaomi Finance is our subsidiary, each grant of options to any Director, the chief executive (as defined in the Listing Rules), or any of the senior management members (as identified in the section headed "Directors and Senior Management") of our Company (or any of their respective associates) shall be subject to the scrutiny and approval of our remuneration committee.

(j) Grant offer letter and notification of grant of options

An offer shall be made to XMF Eligible Persons by a letter in duplicate specifying the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the XMF Board or its delegate(s) such other terms either on a case-by-case basis or generally.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of XMF Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Xiaomi Finance of HK$1.00 by way of consideration for the grant thereof, is received by Xiaomi Finance within 20 business days from the date on which the letter containing the offer is delivered to the XMF Eligible Person.

Any offer may be accepted in respect of less than the number of XMF Shares for which it is offered. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that XMF Eligible Person, it shall be deemed to have been irrevocably declined.

(k) Time of exercise of an option

An option may, subject to the rules of the XMF Share Option Scheme II and the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to Xiaomi Finance in such form as the XMF Board may from time to time determine stating that the option is thereby exercised and the number of XMF Shares in respect of which it is exercised.

(l) Cancelation of options granted

Any breaches of the rules of the XMF Share Option Scheme II by a grantee may result in the options granted to such grantee being canceled by Xiaomi Finance. Any options granted but not exercised may be canceled if the grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the XMF Share Option Scheme II (excluding the canceled options) and in compliance with the terms of the XMF Share Option Scheme II.

(m) Lapse of an option

Without prejudice to the additional situations provided by the XMF Board or its delegates(s), an option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the period within which an option may be exercised, which is to be determined and notified by the XMF Board to each grantee at the time of making an offer, and shall not expire later than 10 years from the date of grant (the "**XMF Option Period**");

(ii) the expiry of any of the periods for exercising the option as referred to in the paragraphs headed "Retirement, death or permanent physical or mental disability of an Eligible Person," "Termination of employment of an Eligible Person," and "Rights on a voluntary winding up" below; and

(iii) the date on which the grantee commits a breach of the rules detailed under the heading "Rights are personal to grantee" above.

(n) Effects of alterations in the capital structure of Xiaomi Finance

In the event of an alteration in the capital structure of Xiaomi Finance by way of capitalization of profits or reserves, rights issue, subdivision or consolidation of shares, or reduction of the share capital of Xiaomi Finance in accordance with applicable laws and requirements (other than any alteration in the capital structure of Xiaomi Finance as a result of an issue of XMF Shares as consideration in a transaction to which Xiaomi Finance is a party), such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of XMF Shares comprised in each option so far as unexercised;

(ii) the XMF Subscription Price;

(iii) the method of exercise of the option; or

(iv) any combination thereof,

as the auditors or a financial advisor engaged by Xiaomi Finance for such purpose shall, at the request of Xiaomi Finance, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of Xiaomi Finance (or as nearly as possible but not greater than the same proportion of the equity capital of Xiaomi Finance) as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a XMF Share to be issued at less than its nominal value. The capacity of the auditors or financial advisor (as the case may be) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on Xiaomi Finance and the grantees. The costs of the auditors or financial advisor (as the case may be) shall be borne by Xiaomi Finance.

(o) Retirement, death or permanent physical or mental disability of a XMF Eligible Person

If a grantee ceases to be a XMF Eligible Person by reason of (i) death of the grantee, (ii) termination of the grantee's employment or contractual engagement with Xiaomi Finance or Xiaomi Finance's affiliate by reason of his/her permanent physical or mental disablement, or (iii) retirement of the grantee, the option may be exercised within the XMF Option Period, or such other period as the XMF Board or its delegate(s) may decide in their sole discretion.

In the case of death of a grantee, the option may be exercised within that period by the personal representatives of the grantee. In the case where a grantee no longer has any legal capacity to exercise the option, the option may be exercised within that period by the persons charged with the duty of representing the grantee under the relevant laws.

If the option is not exercised within the times mentioned above, the option shall lapse.

(p) Termination of employment of a XMF Eligible Person

If a grantee, being an employee whose employment is terminated by Xiaomi Finance or its affiliate by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the grantee having been convicted of any criminal offense involving his integrity or honesty, the option shall immediately lapse.

If a grantee is declared bankrupt or becomes insolvent or makes any arrangements or composition with his/her creditors generally, the option shall immediately lapse.

If a grantee being an employee ceases to be a XMF Eligible Person due to termination of his/her employment or contractual engagement with Xiaomi Finance by reason of redundancy, the option may be exercised within three months of such cessation or within the XMF Option Period, whichever is the shorter, or such other period as the XMF Board or its delegate(s) may decide in their sole discretion.

If a grantee ceases to be a XMF Eligible Person other than in any of the circumstances described above, unless otherwise provided in the letter containing the offer, a grantee may exercise his/her option within three months of such cessation or within the XMF Option Period, whichever is the shorter, or such other period as the XMF Board or its delegate(s) may decide in their sole discretion.

(q) Rights on schemes of compromise or arrangement

If a compromise or arrangement between Xiaomi Finance and the XMF Shareholders or creditors is proposed, Xiaomi Finance shall give notice to the grantee on the same date as Xiaomi Finance dispatches the notice to each XMF Shareholder or creditor of Xiaomi Finance summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may until the expiry of the period commencing with such date and ending with the earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the XMF Share Option Scheme II. Xiaomi Finance may require the grantee to transfer or otherwise deal with the XMF Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position, as nearly as possible, as would have been the case had such XMF Shares been subject to such compromise or arrangement. If the option is not exercised within the time specified, the option shall lapse.

(r) Rights on a voluntary winding up

In the event a notice is given by Xiaomi Finance to the XMF Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily

wind-up Xiaomi Finance, Xiaomi Finance shall on the same date as or soon after it dispatches such notice to each XMF Shareholder give notice thereof to all grantees (together with a notice of the existence of the provisions of this rule) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of Xiaomi Finance by giving notice in writing to Xiaomi Finance, accompanied by a remittance for the full amount of the aggregate subscription price for the XMF Shares in respect of which the notice is given whereupon Xiaomi Finance shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant XMF Shares to the grantee credited as fully paid. If the option is not exercised within the time specified, the option shall lapse.

(s) Ranking of XMF Shares

The XMF Shares to be allotted and issued upon the exercise of an option shall be identical to the then existing issued shares of XMF Finance and subject to all the provisions of the memorandum and articles of association of Xiaomi Finance and will rank pari passu with fully paid XMF Shares in issue on the date the name of the grantee is registered on the register of members of Xiaomi Finance or if that date falls on a day when the register of members of Xiaomi Finance is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of Xiaomi Finance) declared or recommended or resolved to be paid to the XMF Shareholders on the register on a date prior to such registration.

(t) Duration

The XMF Share Option Scheme II shall be valid and effective for the period of 10 years commencing on the XMF Scheme Adoption Date (after which, no further options shall be offered or granted), but in all other respects the provisions of the XMF Share Option Scheme II shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the XMF Share Option Scheme II.

(u) Alteration of the XMF Share Option Scheme II

The XMF Board may amend or vary any of the provisions of the XMF Share Option Scheme II (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the XMF Share Option Scheme II, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Those specific provisions of the XMF Share Option Scheme II that relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of XMF Eligible Person, and no changes to the authority of the administrator of the XMF Share Option Scheme II in relation to any alteration of the terms of the XMF Share Option Scheme II shall be made, without the prior approval of the XMF Shareholders in general meeting and, for so long as Xiaomi Finance is our subsidiary, the prior approval of our Shareholders in general meeting. Any alterations to the terms of the XMF Share Option Scheme II that are of a material nature, or any change to the terms and conditions of the options

granted, must also, to be effective, be approved by the XMF Shareholders in general meeting, and for so long as Xiaomi Finance is our subsidiary, our Shareholders in general meeting and, if applicable, the Stock Exchange, except where the alterations take effect automatically under the existing terms of the XMF Share Option Scheme II. The options and the XMF Share Option Scheme II so altered must comply with Chapter 17 of the Listing Rules (subject to dispensations, modifications and/or waivers granted by the Stock Exchange from time to time). Any change to the authority of the XMF Board or scheme administrators in relation to any alteration to the terms of the XMF Share Option Scheme II must be approved by the XMF Shareholders in general meeting, and for so long as Xiaomi Finance is our subsidiary, our Shareholders in general meeting.

Notwithstanding any provisions to the contrary in the XMF Share Option Scheme II, if on the relevant date of exercise there are restrictions or conditions imposed by the relevant laws and regulations to which the grantee is subject and the grantee has not obtained approval, exemption or waiver from the relevant regulatory authorities for the subscription of and dealing in the XMF Shares, the grantee may sell the options to such transferee, subject to the approval by the XMF Board, which shall not be unreasonably withheld or delayed.

(v) Termination

The XMF Shareholders by ordinary resolution in general meeting or the XMF Board may at any time resolve to terminate the operation of the XMF Share Option Scheme II prior to the expiry of the XMF Share Option Scheme II and in such event no further options will be offered or granted but the provisions of the XMF Share Option Scheme II shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the XMF Share Option Scheme II. Options complying with the terms of the XMF Share Option Scheme II that are granted during the life of the XMF Share Option Scheme II and remain unexercised and unexpired immediately prior to the termination of the operation of the XMF Share Option Scheme II shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the XMF Share Option Scheme II.

Outstanding options granted

As of the Latest Practicable Date, no options under the XMF Share Option Scheme II had been granted.

5. Pinecone Share Option Scheme I

The following is a summary of the principal terms of the Pinecone Share Option Scheme I, the share option scheme adopted by the resolutions in writing of the shareholders of the Pinecone International (who were, at the relevant time, Zhou Guangping, one of our Co-founders, and X-Lab Limited (an Independent Third Party wholly-owned by the founder of Pinecone International, Zhu Ling)) passed on July 30, 2015. The terms of the Pinecone Share Option Scheme I are not subject to the provisions of Chapter 17 of the Listing Rules. As of the Latest Practicable Date, the share capital of Pinecone International was made of ordinary shares and series A preferred shares.

(a) Purpose

The purpose of the Pinecone Share Option Scheme I is to promote the success of the Pinecone International and the interests of its shareholders by providing a means through which the Pinecone

International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of awarded recipients with those of the Pinecone International's shareholders generally.

(b) Eligible persons

Those eligible to participate in the Pinecone Share Option Scheme I include any officer (whether or not a director) or employee of the Pinecone International or its affiliates, any director of the Pinecone International or its affiliates, or any individual consultant or advisor who renders or has rendered bona fide services (with certain exceptions) to the Pinecone International or its affiliates, as determined by the Administrator (defined below). No individual has any right to be granted Pinecone Award pursuant to the Pinecone Share Option Scheme I.

(c) Maximum number of shares

The total number of underlying shares which may be issued pursuant to the Pinecone Share Option Scheme I is 12,000,000 ordinary shares in the share capital of the Pinecone International with a par value of US$0.0001 each ("**Pinecone Shares**"), subject to adjustments for any reorganization, extraordinary dividend distribution or extraordinary corporate transaction in relation to the share capital of the Pinecone International.

(d) Administration

Pinecone Share Option Scheme I is administered by the board of directors of the Pinecone International (the "**Pinecone Board**") or one or more committees appointed by the board or another committee (within its delegated authority) to administer all or certain aspects of the scheme (the "**Administrator**"). Pursuant to the Pinecone Share Option Scheme I, the Administrator may, from time to time, select from the eligible persons to whom awards in the form of options in Pinecone Shares ("**Pinecone Options**") or restricted or unrestricted share awards ("**Pinecone Share Awards**") (collectively "**Pinecone Awards**") will be granted, and may determine the nature, price and amount of each Pinecone Award.

(e) Grant of Pinecone Awards

Pinecone Awards granted will be evidenced by an agreement ("**Pinecone Award Agreement**") in the form approved by the Administrator. The Pinecone Award Agreement shall contain the terms established by the Administrator for that Pinecone Award, as well as any additional as well as any other terms, provisions, or restrictions that the Administrator may impose on the Pinecone Award or the Pinecone Shares underlying the Pinecone Award; in each case subject to the provisions of the Pinecone Share Option Scheme I.

(f) Term of Pinecone Share Option Scheme I

Pinecone Share Option Scheme I commenced on July 30, 2015 and will expire on the tenth anniversary thereof. Upon expiry of the Pinecone Share Option Scheme I, any Pinecone Award that is outstanding shall remain in force according to their applicable terms and conditions and the terms and conditions of the Pinecone Share Option Scheme I.

(g) Pinecone Options

(i) Exercise of option

A Pinecone Option may be exercised only to the extent that it is vested and exercisable. The Administrator determines the vesting and/or exercisability provisions of each Pinecone Option, which may be based on performance criteria, passage of time or other factors or any combination thereof and including exercise prior to vesting, provided the term of any Pinecone Option granted shall not exceed ten years.

(ii) Exercise price

The exercise price per Pinecone Share underlying the Pinecone Options shall be determined by the Administrator at the time of the grant of the Pinecone Options, and set forth in the applicable Award Agreement. The exercise price must not be lower than the par value of the underlying Pinecone Share, and in certain circumstances must not be lower than defined multiples of the fair market value of the underlying Pinecone Share.

(iii) Effect of termination of employment

Unless otherwise provided in the applicable Award Agreement and subject to provisions of the Pinecone Share Option Scheme I:

- if a Participant's employment by or service to Pinecone International or its affiliates is terminated for cause, the Participant's Peincone Option will terminate on the Participant's severance date, whether or not the Pinecone Option is then vested and/or exercisable.
- if a Participant's employment by or service to Pinecone International or its affiliates terminates as a result of the Participant's death or total disability, the Participant (or his or her personal representative or beneficiary), will have until the date that is 6 months after the Participant's severance date to exercise the Participant's Pinecone Option (or portion thereof) to the extent that it was vested and exercisable on the severance date. The Pinecone Option, to the extent not vested and exercisable on the Participant's severance date, shall terminate on the severance date. The Pinecone Option, to the extent exercisable for the 6-month period following the Participant's severance date and not exercised during such period, shall terminate at the close of business on the last day of the 6-month period.
- if a Participant's employment by or service to Pinecone International or its affiliates terminates for any reason other than a termination for cause or the Participant's death or total disability, the Participant will have until the date that is 30 days after the Participant's severance date to exercise his or her Option (or portion thereof) to the extent that it was vested and exercisable on the severance date. The Pinecone Option, to the extent not vested and exercisable on the Participant's severance date, shall terminate on the severance date. The Pinecone Option, to the extent exercisable for the 30 day period following the Participant's severance date and not exercised during such period, shall terminate at the close of business on the last day of the 30 day period.

(iv) Subsequent Changes

Subject to provisions of the Pinecone Share Option Scheme I, the Administrator from time to time may authorize, generally or in specific cases only, for the benefit of any eligible person, any

adjustment in the exercise or base price, the vesting schedule, the number of Pinecone Shares subject to, or the term of, Options granted under this scheme, by cancelation of an outstanding Option or/and a subsequent regranting of the Pinecone Option, by amendment, by substitution of an outstanding Option, by waiver or by other legally valid means. Such amendment or other action may result in, among other changes, an exercise or base price that is higher or lower than the exercise or base price of the original or prior Option, provide for a greater or lesser number of Pinecone Shares subject to the Pinecone Options, or provide for a longer or shorter vesting or exercise period.

(h) Pinecone Share Awards

(i) Issuance and vesting

The Administrator shall designate whether a Pinecone Share Award shall be an unrestricted or restricted Pinecone Share Award. The restrictions imposed on the Pinecone Share subject to a restricted Pinecone Share Award, which may be based on performance criteria, passage of time or other factors or any combination thereof, will be set forth in the applicable Award Agreement.

A Pinecone Share Award shall either vest or be repurchased by the Company as provided by the Pinecone Share Option Scheme I, not more than 10 years after the date of grant.

(ii) Purchase Price

The Administrator will determine the purchase price per share of the Pinecone Shares covered by each Pinecone Share Award at the time of grant of the Award. In no case will such purchase price be less than the par value of the Pinecone Share.

(iii) Termination of Employment and Repurchase

Unless the Administrator otherwise expressly provides, Pinecone Share subject to a restricted Pinecone Share Award, the vesting conditions of which have not been satisfied by the time specified in the applicable Award Agreement, will not vest and will be reacquired by the Company in such manner and on such terms as the Administrator provides. Such terms shall include, to the extent not prohibited by law, return or repayment of the lower of the fair market value of the shares in question at the time of the termination, or if applicable, the original purchase price of the shares in question, without interest. The Award Agreement shall specify any other terms or conditions of the repurchase if the Award fails to vest.

Any other Pinecone Share Award that has not been exercised as of a Participant's severance date shall terminate on that date unless otherwise expressly provided by the Administrator in the applicable Award Agreement.

(iv) Waiver of restrictions

Subject to provisions of the Pinecone Share Option Scheme I, the Administrator from time to time may authorize, generally or in specific cases only, for the benefit of any eligible person, any adjustment in the vesting schedule, or the restrictions upon or the term of, a Pinecone Share Award granted under this scheme by amendment, by substitution of an outstanding Pinecone Share Award, by waiver or by other legally valid means.

(i) Transfer restrictions

Unless otherwise expressly provided by the Pinecone Share Option Scheme I, applicable law and the Award Agreement, as the same may be amended, all Pinecone Awards are non-transferable and will not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge, all Awards will be exercised only by the Participant, and amounts payable or Pinecone Shares issuable pursuant to an Award will be delivered only to or for the account of, and, in the case of Pinecone Shares, registered in the name of, the Participant.

(j) Adjustment

Upon any reclassification, recapitalization, share split or reverse share split; any merger, combination, consolidation, or other reorganization; any split-up, spin-off, or similar extraordinary dividend distribution in respect of the ordinary shares; or any exchange of Pinecone Shares or other securities of Pinecone International, or any similar, unusual or extraordinary corporate transaction in respect of the ordinary shares; the Administrator shall equitably and proportionately adjust: (i) the number and type of Pinecone Shares (or other securities) that thereafter may be made the subject of Awards, (ii) the number, amount and type of Pinecone Share (or other securities or property) subject to any outstanding Awards, (iii) the grant, purchase, exercise or base price of any outstanding Awards, and/or (iv) the securities, cash or other property deliverable upon exercise or vesting of any outstanding Awards, in each case to the extent necessary to preserve the level of incentives intended by the Pinecone Share Option Scheme I and the then-outstanding Awards.

Unless otherwise expressly provided in the applicable Award Agreement, upon any above mentioned event or transaction or a sale of all or substantially all of the business or assets of Pinecone International as an entirety, the Administrator shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based Awards to the extent necessary to preserve the level of incentives intended by the Pinecone Share Option Scheme I and the then-outstanding performance-based Awards.

(k) Change in Control and Acceleration

Upon the occurrence of a change in control event, the Administrator may make provision for a cash payment in settlement of, or for the assumption, substitution or exchange of any or all outstanding Awards based upon, to the extent relevant in the circumstances, the distribution or consideration payable to holders of the Pinecone Shares upon or in respect of such event.

In addition, upon the occurrence of a change in control event, each Pinecone Option will become immediately vested and exercisable; and restricted Pinecone Share Awards will immediately vest free of forfeiture restrictions and/or restrictions giving the Company the right to repurchase the Pinecone Shares at their original purchase price; provided, however, that such acceleration provision shall not apply, unless otherwise expressly provided by the Administrator, with respect to any Award to the extent that the Administrator has made a provision for the substitution, assumption, exchange or other continuation or settlement of the Award, or the Award would otherwise continue in accordance with its terms, in the circumstances.

The foregoing change in control event provisions shall not in any way limit the authority of the Administrator to accelerate the vesting of one or more Awards in such circumstances as the Administrator may determine to be appropriate, regardless of whether accelerated vesting of all or a

portion of the Award(s) is otherwise required or contemplated by the foregoing in the circumstances. The Administrator may override the relevant provisions in the Pinecone Share Option Scheme I as to any Award by express provision in the applicable Award Agreement and may accord any Participant a right to refuse any acceleration, whether pursuant to the Award Agreement or otherwise, in such circumstances as the Administrator may approve.

(l) Amendment, modification and termination

The Pinecone Board may, at any time, terminate or, from time to time, amend, modify or suspend the Pinecone Share Option Scheme I, in whole or in part. To the extent required by applicable law, rules or regulations, or deemed necessary or advisable by the board, any amendment to this Plan shall be subject to shareholder approval.

Subject to the provisions of the Pinecone Share Option Scheme I, the Administrator by agreement or resolution may waive conditions of or limitations on Awards to Participants that the Administrator in the prior exercise of its discretion has imposed, without the consent of a Participant, and may make other changes to the terms and conditions of Awards.

No amendment, suspension or termination of the Pinecone Share Option Scheme I or amendment of any outstanding Award shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of the Participant or obligations of Pinecone International under any Award granted prior to the effective date of such change.

Outstanding Pinecone Options granted

The proposal to grant the Pinecone Options under the Pinecone Share Option Scheme I to the grantees as set out below has been approved by the Pinecone Board. The overall limit on the number of underlying Pinecone Shares is 12,000,000 Pinecone Shares. As at the Latest Practicable Date, the aggregate number of underlying Pinecone Shares pursuant to the Pinecone Options granted under the Pinecone Share Option Scheme I is [3,806,649] Pinecone Shares, representing approximately [15]% of the issued share capital of the ordinary shares of Pinecone International. As at the Latest Practicable Date, we have granted Pinecone Options to [37] Participants. [All Pinecone Options were granted between 18 May 2015 and [March 26, 2018]. No Pinecone Options have been granted to Directors, senior managers or other connected persons of the Company. [Pinecone International will not make any further grants of Pinecone Options under the Pinecone Share Option Scheme I after the **[REDACTED]**]. All Pinecone Shares underlying the Pinecone Options are ordinary shares of Pinecone International.

6. Pinecone Share Option Scheme II

The following is a summary of the principal terms of Pinecone Share Option Scheme II, the share option scheme conditionally adopted by the resolutions in writing of the shareholders of Pinecone International passed on [●] 2018 and shareholders of our Company on [●]. The terms of Pinecone Share Option Scheme II will be governed by Chapter 17 of the Listing Rules and subject to the relevant waiver set out in "Waivers from Strict Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance." As of the Latest Practicable Date, the share capital of Pinecone International was made of ordinary shares and series A preferred shares.

(a) Purpose

The purpose of the Pinecone Share Option Scheme II is to provide selected participants with the opportunity to acquire proprietary interests in Pinecone International and to encourage selected participants to work towards enhancing the value of Pinecone International and its shares for the benefit of Pinecone International and its shareholders, including our Company, as a whole. Pinecone Share Option Scheme II will provide Pinecone International with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to selected participants.

(b) Selected participants

Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the group of Pinecone International (the "**Pinecone Group**") or any affiliate who the board of Pinecone International or its delegate(s) (the "**Pinecone Board**") considers, in their sole discretion, to have contributed or will contribute to the Pinecone Group is entitled to be offered and granted options. However, no individual who is resident in a place where the grant, acceptance or exercise of options pursuant to the Pinecone Share Option Scheme II is not permitted under the laws and regulations of such place or where, in the view of the board of Pinecone International or its delegate(s), compliance with applicable laws and regulations in such place makes it necessary or expedient to exclude such individual, is eligible to be offered or granted options.

(c) Maximum number of ordinary shares of Pinecone International

The total number of shares that may be issued upon exercise of all options to be granted under the Pinecone Share Option Scheme II and any other schemes is [8,800,000] ordinary shares of Pinecone International, being no more than [10]% of the total number of ordinary shares in issue of Pinecone International (assuming all preferred shares of Pinecone International have been converted into ordinary shares) on the date on which Pinecone Share Option Scheme II was approved (the "**Pinecone Option Scheme Mandate Limit**"). Options which have lapsed in accordance with the terms of the rules of the Pinecone Share Option Scheme II (or any other share option schemes of Pinecone International) shall not be counted for the purpose of calculating the Pinecone Option Scheme Mandate Limit. We have applied for, and the Stock Exchange [has granted] a waiver from strict compliance with Note 1 to Rule 17.03(3) of the Listing Rules, such that the Pinecone Option Scheme Mandate Limit of 10% was calculated based on the number of ordinary shares of Pinecone International assuming all preferred shares of Pinecone International have been converted into ordinary shares), as opposed to each class of securities.

The overall limit on the number of ordinary shares of Pinecone International that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pinecone Share Option Scheme II and any other share option schemes of Pinecone International at any time must not exceed [30]% of the ordinary shares of Pinecone International in issue from time to time (assuming all preferred shares of Pinecone International have been converted into ordinary shares) (the "**Pinecone Option Scheme Limit**"). No options may be granted under any schemes of Pinecone International if this will result in the Pinecone Option Scheme Limit being exceeded.

The Pinecone Option Scheme Mandate Limit may be refreshed at any time by obtaining prior approval of the shareholders of Pinecone International and, for so long as Pinecone International is a

subsidiary of our Company, the Shareholders of our Company in general meeting and/or such other applicable requirements prescribed under the Listing Rules from time to time. However, the refreshed Pinecone Option Scheme Mandate Limit cannot exceed [10]% of the ordinary shares of Pinecone International in issue as at the date of such approval (assuming all preferred shares of Pinecone International have been converted into ordinary shares) . Options previously granted under the Pinecone Share Option Scheme II and any other share option schemes of Pinecone International (including those outstanding, canceled or lapsed in accordance with its terms or exercised), shall not be counted for the purpose of calculating the refreshed Pinecone Option Scheme Mandate Limit.

Pinecone International may also grant options in excess of the Pinecone Option Scheme Mandate Limit, provided such grant is to specifically identified selected participant and is first approved by shareholders of Pinecone International and, for so long as Pinecone International is a subsidiary of our Company, the Shareholders of our Company in general meeting.

(d) Maximum entitlement of a grantee

Unless approved by shareholders of Pinecone International, and, for so long as Pinecone International is a subsidiary of our Company, the Shareholders of our Company, the total number of ordinary shares of Pinecone International issued and to be issued upon exercise of the options granted and to be granted under Pinecone Share Option Scheme II and any other share option scheme(s) of Pinecone International to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares in issue of Pinecone International (assuming all preferred shares have been converted into ordinary shares) (the "**Pinecone Individual Limit**"). Any further grant of options to a selected participant which would result in the aggregate number of ordinary shares of Pinecone International issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, canceled and outstanding options) in the 12 month period up to and including the date of such further grant exceeding the Pinecone Individual Limit shall be subject to separate approval of shareholders of Pinecone International, and for as long as Pinecone Internaitonal is a subsidiary of our Company, the Shareholders of our Company (with such selected participant and his associates abstaining from voting).

(e) Performance target

Pinecone Share Option Scheme II does not set out any performance targets that must be achieved before the options may be exercised. However, the Pinecone Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(f) Subscription price

The price per ordinary share of Pinecone International at which a grantee may subscribe for the ordinary shares of Pinecone International on the exercise of an option under the Pinecone Share Option Scheme II shall be the "**Pinecone Subscription Price**." The Pinecone Board shall determine the Pinecone Subscription Price in relation to each option at the time of grant and specify the Pinecone Subscription Price in the grant offer letter.

In the event that the Pinecone Board resolves to seek a separate listing of its shares on any established stock exchange (including the Stock Exchange), for so long as Pinecone International is a

subsidiary of our Company, the Pinecone Subscription Price of any options granted after such resolution to the listing date of the Pinecone International shall not be lower than the new issue price (if any). In particular, the Pinecone Subscription Price of any options granted during the period commencing six (6) months before the lodgement of the listing application and up to the listing date of Pinecone International shall not be lower than the new issue price (if any).

After the shares of Pinecone International are listed on any established stock exchange (including the Stock Exchange), the Pinecone Subscription Price of any options to be granted shall be at least the higher of: (i) the nominal value of a share of Pinecone International; (ii) the closing price of the shares of Pinecone International as stated in the exchange's daily quotations sheet on the date of grant of such option, which must be a business day; and (iii) the average closing price of the shares of Pinecone International as stated in the stock exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant of such option.

(g) Rights are personal to grantee

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest in favor of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of the Pinecone Share Option Scheme II.

(h) Grants to directors or substantial shareholders of the Company

Where any grant of options to a substantial shareholder or an independent non-executive Director (or any of their respective associates) would result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the ordinary shares in issue of Pinecone International (assuming all preferred shares of Pinecone International have been converted into ordinary shares), such further grant of options must also be first approved by the shareholders of Pinecone International, and for as long as Pinecone International is a subsidiary of our Company, the Shareholders of our Company (voting by way of poll) in a general meeting. In obtaining the approval, our Company shall send a circular to the Shareholders of our Company in accordance with and containing such information as is required under the Listing Rules. All connected persons of our Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders of our Company in connection therewith.

(i) Grant offer letter and notification of grant of options

An offer shall be made to selected participants by a letter in duplicate which specifies the terms on which the option is to be granted. Such terms may include any minimum period(s) for which an option must be held and/or any minimum performance target(s) that must be achieved, before the option can be exercised in whole or in part, and may include at the discretion of the Pinecone Board or its delegate(s) such other terms either on a case basis or generally.

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter

comprising acceptance of the offer duly signed by the grantee with the number of ordinary shares of Pinecone International in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Pinecone International of HK$1.00 by way of consideration for the grant thereof, which must be received by the Pinecone International within 20 business days from the date on which the offer letter is delivered to the grantee.

Any offer may be accepted in respect of less than the number of ordinary shares of Pinecone International for which it is offered. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that selected participant, it shall be deemed to have been irrevocably declined.

(j) Time of exercise of an option

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to Pinecone International in such form as the board of Pinecone International may from time to time determine stating that the option is thereby exercised and the number of shares in respect of which it is exercised.

(k) Cancelation of options

Any breaches of the rules of the Pinecone Share Option Scheme II by a grantee may result in the options granted to such grantee being canceled by Pinecone International. Any options granted but not exercised may be canceled if the grantee so agrees. Issuance of new options to the same grantee may only be made if there are unissued options available under the Pinecone Share Option Scheme II (excluding the canceled options) and in compliance with the terms of the Pinecone Share Option Scheme II.

(l) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(i) the expiry of the period within which an option may be exercised, which is to be determined and notified by the Pinecone Board to each grantee at the time of making an offer, and shall not expire later than ten years from the date of grant;

(ii) the expiry of any of the periods for exercising the option as referred to in paragraphs (p), (q) and (r) below; and

(iii) the date on which the grantee commits a breach of the rules of the Pinecone Share Option Scheme II.

(m) Voting and dividend rights

No dividends shall be payable and no voting rights shall be exercisable in relation to any options or ordinary shares of Pinecone International that are the subject of options that have not been exercised.

(n) Effects of alterations in the capital structure of Pinecone International

In the event of an alteration in the capital structure of Pinecone International whilst any option remains exercisable by way of capitalization of profits or reserves, rights issue, subdivision or

consolidation of shares, or reduction of the share capital of Pinecone International in accordance with legal requirements and, if applicable, the requirements of the Stock Exchange (other than any alteration in the capital structure of Pinecone International as a result of an issue of shares as consideration in a transaction to which Pinecone International is a party), such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of ordinary shares of Pinecone International comprised in each option so far as unexercised; and/or

(ii) the Pinecone Subscription Price;

(iii) the method of exercise of the option; and/or

(iv) any combination thereof,

as the auditors or a financial advisor engaged by Pinecone International for such purpose shall, at the request of Pinecone International, certify in writing, either generally or as regards any particular grantee, to be in their opinion fair and reasonable, provided always that any such adjustments should give each grantee the same proportion of the equity capital of Pinecone International as that to which that grantee was previously entitled prior to such adjustments, and no adjustments shall be made which will enable a share of Pinecone International to be issued at less than its nominal value. The capacity of the auditors or financial advisor (as the case may be) is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on Pinecone International and the grantees. The costs of the auditors or financial advisor (as the case may be) shall be borne by Pinecone International.

(o) Retirement, death or permanent physical or mental disability of an selected participant

If a grantee ceases to be selected participant by reason of (i) death of the grantee, (ii) termination of the grantee's employment or contractual engagement with the Pinecone Group or its affiliate by reason of his/her permanent physical or mental disablement, (iii) retirement of the grantee, the option may be exercised within the option period for which it was granted, or such other period as the Pinecone Board or its delegate(s) may decide in their sole discretion.

In the case of death of a grantee, the option may be exercised within that period by the personal representatives of the grantee. In the case where a grantee no longer has any legal capacity to exercise the option, the option may be exercised within that period by the persons charged with the duty of representing the grantee under the relevant laws in Hong Kong. If the option is not exercised within the time mentioned above, the option shall lapse.

If a grantee, being an employee whose employment is terminated by the Pinecone Group or its affiliate (as applicable) by reason of the employer terminating the contract of employment without notice or payment in lieu of notice, or the grantee having been convicted of any criminal offense involving his integrity or honesty, the option shall immediately lapse.

If a grantee is declared bankrupt or becomes insolvent or makes any arrangements or composition with his creditors generally, the option shall immediately lapse.

If a grantee being an employee ceases to be selected participant due to termination of his or her employment or contractual engagement with the Pinecone Group by reason of redundancy, the option may be exercised within three months of such cessation or within the option period for which it was

granted, whichever is the shorter, or such other period as the Pinecone Board or its delegate(s) may decide in their sole discretion.

If a grantee ceases to be selected participant other than in any of the circumstances described above, unless otherwise provided in the grant offer letter, a grantee may exercise his or her option within three months of such cessation or within the option period for which it was granted, whichever is the shorter, or such other period as the Pinecone Board or its delegate(s) may decide in their sole discretion.

(p) Rights on takeover and schemes of compromise or arrangement

If a compromise or arrangement between Pinecone International and its members or creditors is proposed, Pinecone International shall give notice to the grantee on the same date as it despatches the notice to each member or creditor of Pinecone International summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his personal representatives) may until the expiry of the period commencing with such date and ending with earlier of the date two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the court exercise any of his options (to the extent not already exercised) whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective, and upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Pinecone Share Option Scheme II. Pinecone International may require the grantee to transfer or otherwise deal with the ordinary shares of Pinecone International issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position, as nearly as possible, as would have been the case had such ordinary shares of Pinecone International been subject to such compromise or arrangement. If the option is not exercised within the time specified, the option shall lapse.

(q) Rights on a voluntary winding up

In the event a notice is given by Pinecone International to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up Pinecone International, Pinecone International shall on the same date as or soon after it dispatches such notice to each member of Pinecone International give notice thereof to all grantees (together with a notice of the existence of the provisions of this sub-paragraph) and thereupon, each grantee (or his personal representatives) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of Pinecone International by giving notice in writing to Pinecone International, accompanied by a remittance for the subscription price for the ordinary shares of Pinecone International in respect of which the notice is given whereupon Pinecone International shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant ordinary shares of Pinecone International to the grantee credited as fully paid. If the option is not exercised within the time specified, the option shall lapse.

(r) Ranking of shares

The ordinary shares of Pinecone International to be allotted and issued upon the exercise of an option shall be identical to the then existing issued ordinary shares of Pinecone International and subject to all the provisions of the memorandum and articles of association of Pinecone International

for the time being in force and will rank behind the preference shares of Pinecone International (provided that such preference shares have not been converted into ordinary shares) in issue on the date the name of the grantee is registered on the register of members of Pinecone International or if that date falls on a day when the register of members of Pinecone International is closed, the first day of the re-opening of the register of members, save that the grantee shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of Pinecone International) declared or recommended or resolved to be paid to the shareholders of the Company on the register on a date prior to such registration.

(s) Duration

The Pinecone Share Option Scheme II shall be valid and effective for the period of 10 years commencing on the Listing Date (after which, no further options shall be offered or granted under the Pinecone Share Option Scheme II), but in all other respects the provisions of the Pinecone Share Option Scheme II shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the rules of the Pinecone Share Option Scheme II.

(t) Alteration of the Pinecone Share Option Scheme II

The Pinecone Board may subject to the rules of the Pinecone Share Option Scheme II amend any of the provisions of the Pinecone Share Option Scheme II (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Pinecone Share Option Scheme II, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

Those specific provisions of the Pinecone Share Option Scheme II which relate to the matters set out in Rule 17.03 of the **[REDACTED]** cannot be altered to the advantage of selected participants, and no changes to the authority of the administrator of the Pinecone Share Option Scheme II in relation to any alteration of the terms of the Pinecone Share Option Scheme II shall be made, without the prior approval of shareholders of Pinecone International, and for as long as Pinecone International is a subsidiary of our Company, the Shareholders of our Company in general meeting. Any alterations to the terms of the Pinecone Share Option Scheme II which are of a material nature, or any change to the terms and conditions of options granted, must also, to be effective, be approved by the shareholders of Pinecone International, and for as long as Pinecone International is a subsidiary of our Company, the Shareholders of our Company in general meeting and the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Pinecone Share Option Scheme II. The options and the Pinecone Share Option Scheme II so altered must comply with Chapter 17 of the Listing Rules. Any change to the authority of the Directors or scheme administrators in relation to any alternation to the terms of the Pinecone Share Option Scheme II must be approved by shareholders of Pinecone International, and for as long as Pinecone International is a subsidiary of our Company, the Shareholders of our Company in general meeting.

Notwithstanding any provisions to the contrary in the Pinecone Share Option Scheme II, if on the relevant date of exercise there are restrictions or conditions imposed by the relevant laws and regulations to which the grantee is subject and the grantee has not obtained approval, exemption or waiver from the relevant regulatory authorities for the subscription of and dealing in the Pinecone

Shares, the grantee may sell the options to such transferee, subject to the approval by the Pinecone Board, which shall not be unreasonably withheld or delayed.

(u) Termination

The shareholders of Pinecone International by ordinary resolution in general meeting or the Pinecone Board may at any time resolve to terminate the operation of the Pinecone Share Option Scheme II prior to the expiry of the Pinecone Share Option Scheme II and in such event no further options will be offered or granted but the provisions of the Pinecone Share Option Scheme II shall remain in full force to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pinecone Share Option Scheme II. Options complying with the provisions of Chapter 17 of the Listing Rules which are granted during the life of the Pinecone Share Option Scheme II and remain unexercised and unexpired immediately prior to the termination of the operation of the Pinecone Share Option Scheme II shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Pinecone Share Option Scheme II.

Outstanding options granted

As of the Latest Practicable Date, no options under the Pinecone Share Option Scheme II had been granted.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

Save as disclosed in this **[REDACTED]** and so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee for the **[REDACTED]** of, and permission to deal in, the Shares in issue, the Class B Shares to be issued pursuant to the **[REDACTED]** (including [any Shares which may be [sold] pursuant to the exercise of the **[REDACTED]** and] any Class B Shares to be allotted and issued upon the exercise of the options which has been granted under the Pre-**[REDACTED]** ESOP).

The Joint Sponsors satisfy the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Joint Sponsors will receive an aggregate fee of US$150,000 for acting as the sponsor for the **[REDACTED]**.

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this **[REDACTED]** with copies of their reports, letters, opinions or summaries of

opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
CLSA Capital Markets Limited	A licensed corporation to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Morgan Stanley Asia Limited	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Goldman Sachs (Asia) L.L.C.	A licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
JunHe LLP	Qualified Lawyers as to the laws of mainland China
Maples and Calder (Hong Kong) LLP	Cayman Islands attorneys-at-law
PricewaterhouseCoopers	Certified public accountants
Shanghai iResearch Co., Ltd, China	Industry consultant
IDC Consulting (Beijing) Ltd.	Industry consultant

As of the Latest Practicable Date, save as certain affiliated entities of Goldman Sachs (Asia) L.L.C., being Pre-**[REDACTED]** Investors of the Company, held various Series F-1 Preferred Shares, representing less than 0.1% of the issued share capital of the Company (assuming all Preferred Shares are converted into Class B Shares on a one to one basis), none of the experts named above had any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

5. Binding Effect

This **[REDACTED]** shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

6. Bilingual [REDACTED]

The English language and Chinese language versions of this **[REDACTED]** are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary Expenses

The Company did not incur any material preliminary expenses.

8. Other Disclaimers

(1) Save as disclosed in this **[REDACTED]**, within the two years immediately preceding the date of this **[REDACTED]**:

(i) no share or loan capital or debenture of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partly paid other than in cash or otherwise;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries.

(2) Save as disclosed in this **[REDACTED]**:

(i) there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;

(ii) no share or loan capital or debenture of our Company of any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and

(iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries by our Company for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company or any of our subsidiaries.

(3) Save as disclosed in the paragraph headed "Further Information about our Business—Summary of Material Contracts" in this section, none of our Directors or proposed Directors or experts (as named in this **[REDACTED]**), have any interest, direct or indirect, in any assets which have been, within the two years immediately preceding the date of this **[REDACTED]**, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group.

(4) We do not have any promoter. No cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the **[REDACTED]** and the related transactions described in this **[REDACTED]** within the two years immediately preceding the date of this **[REDACTED]**.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this **[REDACTED]** delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) a copy of each of the **[REDACTED]**;

(b) the written consents referred to under the section headed "Statutory and General Information—Other Information—Consents of Experts" in Appendix IV; and

(c) a copy of each of the material contracts referred to in the section headed "Statutory and General Information—Further Information about Our Business—Summary of Material Contracts" in Appendix IV.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Skadden, Arps, Slate, Meagher & Flom at 42/F Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this **[REDACTED]**:

(a) the Memorandum and the Articles;

(b) the Accountant's Report and the report on the unaudited pro forma financial information of our Group from PricewaterhouseCoopers, the texts of which are set out in Appendices I and II;

(c) the audited consolidated financial statements of our Company for the three financial years ended December 31, 2015, 2016 and 2017;

(d) the legal opinions as to the laws of mainland China issued by JunHe LLP, our legal advisor on the laws of mainland China, in respect of certain general corporate matters and property interests of our Group;

(e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our legal advisor on Cayman Islands law, summarizing certain aspects of the Cayman Companies Law referred to in Appendix III;

(f) the Cayman Companies Law;

(g) the industry report issued by IDC Consulting (Beijing) Ltd., the summary of which is set forth in the section headed "Industry Overview";

(h) the industry report issued by Shanghai iResearch Co., Ltd, China, the summary of which is set forth in the section headed "Industry Overview";

(i) the written consents referred to under the section headed "Statutory and General Information—Other Information—Consents of Experts" in Appendix IV;

(j) the material contracts referred to in "Statutory and General Information—Further Information about Our Business—Summary of Material Contracts" in Appendix IV;

(k) the service contracts and the letters of appointment with our Directors referred to in "Statutory and General Information—Further Information about our Directors—Particulars of Directors' service contracts and appointment letters" in Appendix IV;

(l) the terms of the Pre-**[REDACTED]** ESOP;

(m) the terms of the Post-**[REDACTED]** ESOP;

(n) the terms of the XMF Share Option Scheme I;

(o) the terms of the XMF Share Option Scheme II;

(p) the terms of the Pinecone Share Option Scheme I; and

(q) the terms of the Pinecone Share Option Scheme II.