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

		Attributable to owners of the Company						
	Note	Share capital	Share premium	Other reserves	Accumulated losses	Sub-total	Non-controlling interests	Total equity
		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						
		Share capital	Share premium	Other reserves	Accumulated losses	Sub-total	Non-controlling interests	Total equity
		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

		Attributable to owners of the Company						
	Note	Share capital	Share premium	Other reserves	Accumulated losses	Sub-total	Non-controlling interests	Total Equity
		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	2016	2017
		RMB'000	RMB'000	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	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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

Interest income mainly represents interest income from bank deposits, including bank balance and term deposits.

	2015	2016	2017
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 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 As of December 31, 2015	2016	2017	Principal activities and place of operation
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.

				Quoted fair value			Carrying amount		
				As of December 31,			As of December 31,		
Name of entity	Place of incorporation	% of ownership interest	Principal activities/place of operation	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.