You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountant's Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this prospectus, including the sections headed "Risk Factors" and "Business."

For the purpose of this section, unless the context otherwise requires, references to 2015, 2016 and 2017 refer to our financial years ended December 31 of such years and references to the first quarter of 2017 and 2018 refer to the three months ended March 31, 2017 and 2018, respectively. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

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

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

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention. For our core in-house products, we focus on designing and developing a range of cutting-edge hardware products including smartphones, laptops, smart TVs, AI speakers and smart routers. We curate a wide range of additional products by investing in and managing an ecosystem of over 210 companies, among which more than 90 companies were focused on the development of smart hardware and lifestyle products as of March 31, 2018. This has enabled us to build the largest consumer IoT platform globally in terms of the number of connected devices as of March 31, 2018, excluding smartphones and laptops, according to iResearch. We had over 100 million connected devices, excluding smartphones and laptops, as of March 31, 2018. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

Our highly efficient omni-channel new retail distribution platform is a core component of our growth strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our users' experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with users. We were number one in terms of smartphone unit shipments online in both mainland China and India in the first quarter of 2018, according to IDC. In particular, Mi Store was the third-largest 3C and home appliances direct sales online retail platform by GMV in mainland China in 2017 and in the first quarter of 2018, respectively, according to iResearch. We were also the third-largest direct sales online retail platform by GMV in India in 2017 and in the first quarter of 2018, according to the same source. Since 2015, we have also significantly expanded our direct offline retail network, for example, through our self-operated Mi Home stores. Our direct offline retail capability allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. In 2017, our self-operated Mi Home stores generated the second highest average sales per square meter amongst retail store chains globally, according to iResearch. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

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

During our Track Record Period, our total revenues increased from RMB66.8 billion in 2015 to RMB68.4 billion in 2016, and further increased to RMB114.6 billion in 2017, and our total revenues increased from RMB18.5 billion in the three months ended March 31, 2017 to RMB34.4 billion in the three months ended March 31, 2018. We had an operating profit of RMB1,372.7 million, RMB3,785.1 million and RMB12,215.5 million in 2015, 2016 and 2017, respectively, and we had an operating profit of RMB1,954.5 million and RMB3,364.5 million in the three months ended March 31, 2017 and 2018, respectively. Excluding the impacts of (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation expenses, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions, we had adjusted non-IFRS loss of RMB303.9 million in 2015 and adjusted non-IFRS profit of RMB1,895.7 million, RMB5,361.9 million, RMB660.5 million and RMB1,699.3 million in 2016 and 2017 and in the first quarter of 2017 and 2018, respectively. See "—Consolidated Income Statements" and "—Non-IFRS Measure: Adjusted (Loss)/Profit" for details. We had a loss of RMB7,627.0 million in 2015, a profit of RMB491.6 million in 2016 and losses of RMB43,889.1 million, RMB7,867.0 million and RMB7,027.4 million in 2017 and in the first quarter of 2017 and 2018, respectively.

BASIS OF PRESENTATION

The historical financial information of our Group has been prepared in accordance with applicable International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 4 to the Accountant's Report included in Appendix I to this prospectus.

All effective standards, amendments to standards and interpretations are consistently applied to our Group for the Track Record Period.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

General Factors

Our business and operating results are affected by general factors affecting the broader internet industry and the consumer electronics industry in mainland China and in the international markets where we focus. These factors include:

- overall economic growth and level of per capita disposable income;
- growth of mobile internet usage and penetration rate;
- growth and competition of the smartphone, IoT and lifestyle product markets;
- growth and competition of the internet service markets; and
- new and substantially more superior technology products and services.

Unfavorable changes in any of these general industry conditions could negatively affect demand for our products and services and materially adversely affect our results of operations.

Specific Factors

Our results of operations are also affected by specific factors affecting our results of operations, including the following major factors:

Popularity of Our Products

A substantial majority of our revenues is derived from sales of products, in particular smartphones, as well as the IoT and lifestyle products. Revenue growth in our smartphones segment and our IoT and lifestyle products segment in recent years was primarily driven by increased sales of existing products, including new models, and the category expansion of our product offerings. To maintain our growth momentum, we must continue to innovate and develop high-quality, well-designed and user-centric products to increase sales. Furthermore, revenues from our smartphones and our IoT and lifestyle products segments are affected by the selling price of our products, which is in turn affected by changes in the cost of components and raw materials, the anticipated demand for new models, the income levels of target users, changes in the mix of sales channels, the historical sales volume of previous models, and the prices of comparable products. In particular, the average selling price for smartphones typically declines during its life cycle. The effect of such declining average selling prices of our existing smartphone models has been offset by our continuous introduction of new and enhanced models and our expanded product category offerings.

Growth of Internet Services Revenues

Our internet services segment has achieved high gross profit margin during the Track Record Period, which plays a significant role in our overall profitability.

The growth of our internet services revenues ultimately depends on the breadth of our internet service offerings, the size of our user base and the level of user engagement and spending. We derive our internet services revenue primarily from advertising and internet value-added services, which mainly include online games. Advertisers are drawn to our platform because of the size of our user base, the level of our user engagement and the attractive demographics of our user base. Our value-added services depend on the overall size of our user base, in particular the number of paying users, as well as the level of user engagement. Our ability to maintain and expand our user base, as well as maintaining and enhancing user engagement and spending, depends on, among other things, our ability to continuously offer popular services, recommend personalized services and content through technological innovation and provide a superior user experience. We will continue to leverage our big data analytic capabilities and the resulting nuanced understanding of user interests to stay abreast of evolving user demand and preferences and introduce more popular and personalized products and services.

Expansion and Penetration in International Markets

As of March 31, 2018, we sell our products in 74 countries and regions across five continents. We have experienced significant growth in international operations during the Track Record Period, particularly in India. In 2015, 2016 and 2017 and in the first quarter of 2017 and 2018, 6.1%, 13.4%, 28.0%, 23.2% and 36.2%, respectively, of our total revenues were derived from sales outside of mainland China. We believe our global opportunity is significant, and we will continue to enhance our sales and marketing efforts, expand our distribution channels, and invest in infrastructure and personnel to support our international expansion. We intend to leverage our strong execution abilities to localize our unique business model internationally. We believe our leading position in India's smartphone market lays a strong foundation for us to further expand our user base and internet services offerings to enhance user experience and further increase user monetization in India. Outside of mainland China and India, we will focus on expanding operations in additional markets, such as Southeast Asia, Europe, Russia and other regions. We may have to adapt our business model to the local markets due to various legal requirements and market conditions. Fluctuation in currency exchange rates between our main transaction currencies and foreign currencies used in international markets may impact our financial condition and operating results.

Strategic Investments

During the Track Record Period, we invested in a large number of companies both in mainland China and in the rest of the world. These investee companies can mainly help us efficiently expand our product and service offerings, provide proprietary technologies complementary to ours, or help us expand our international footprint. Our strategic investments can provide us with an additional stream of recurring income. We plan to continue to invest in businesses that are complementary to our business and growth strategies. Such investments may impact our results of operations and financial condition, depending on the amount involved and the performance of the companies in which we invest. In 2015, 2016 and 2017 and in the first quarter of 2018, our realized investment income was RMB533.5 million, RMB29.5 million, RMB283.4 million and RMB83.8 million, respectively. In 2015, 2016 and 2017 and in the first quarter of 2017 and 2018, our fair value gains on long-term investments measured at fair value through profit or loss were RMB2.8 billion, RMB2.7 billion, RMB6.4 billion, RMB1.2 billion and RMB1.8 billion, respectively.

Management of Supply-related Costs

For our smartphones segment and IoT and lifestyle products segment, raw materials, component and assembly costs of our in-house products, as well as the cost of procuring ecosystem products from our partners, have historically accounted for the largest portion of our cost of sales. Since the early stage of our development, we have adopted a contract-based outsourcing model for the assembly of our in-house products under which we strictly control the procurement, production and quality assurance processes. Our ability to effectively control our supply and other production-related costs has affected and will continue to affect our profitability. For products not developed in-house, we rely on our ecosystem partners to supply finished products. Cost of sales for the sale of such ecosystem products comprises primarily the production cost of such products and revenue-sharing with our partners. We proactively manage the cost of the ecosystem products supplied by our partners, and we believe maintaining a mutually beneficial relationship with our ecosystem partners is critical to our business and growth prospects. We provide ecosystem partners with significant business demand, allowing them to commercially launch their products and ramp up their business rapidly. Our ecosystem partners, on the other hand, leverage their research and development capabilities and help us quickly enter into new market segments, enabling us to expand our product portfolio.

To a lesser extent, our cost of sales had been impacted by fluctuations in foreign currency exchange rates as a result of our global operations. We are exposed to foreign exchange risks from trade receivables and trade payables when we receive foreign currencies from, or pay foreign currencies to overseas business partners.

For our internet services segment, revenue-sharing with game developers and other content providers accounted for a large portion of our cost of sales. Our ability to maintain a mutually beneficial relationship with our internet service partners in order to assure and improve the high quality and attractiveness of our internet services to users will significantly affect our results of operations.

Investment in People, Technology and Infrastructure

We are a technology company operating in intensely competitive markets. We have made, and will continue to make, significant investments in people, technology and infrastructure, to solidify our market leadership and to provide great user experience. As our organization expands, and as we invest more in R&D, expand our product and service offerings and broaden our retail channels, talent attraction and retention are critical for our business, operations and growth prospects. We will continue to invest in our people, particularly engineers, designers and product management personnel. As of March 31, 2018, over 5,500 of our employees held share-based awards.

In addition, we have dedicated and will continue to dedicate significant resources to research and development. Our patent portfolio, especially global patent portfolio, has grown rapidly in recent years as a result of our continued investments. We expect our future investments will include designing and developing new products and services with enhanced functionalities and features, as well as continued building of our patent reserve around the world. We will also continue to upgrade and expand our technology infrastructure to keep pace with the growth of our business. We have invested significant resources in the development of our cloud, big data and AI capabilities in recent years, and we expect to continue to do so in the near future.

Marketing and Brand Promotion

One of our growth strategies is to attract new users through enhancing our brand recognition. Instead of incurring a large amount of selling and marketing expenses for a company of our size, we rely on word-of-mouth marketing through continuous offering of popular products and services. Since 2016, we broadened our user base beyond the tech-savvy crowd through a variety of selected sales and marketing initiatives, as well as effective brand promotion campaigns which resulted in an increase in our selling and marketing expenses both in absolute amount and also as a percentage of our total revenues. Such efforts include expanding the large network of Mi Home stores, conducting online, TV and other offline advertising campaigns, as well as engaging popular celebrities for the promotion of our brands. As we continue to increase our domestic and global footprints, our marketing and brand promotion expenses may continue to increase in the near future.

Management of Working Capital

Our ability to effectively control our working capital has affected and will continue to affect our cash flow from operations. We actively manage our trade receivables for sales of goods and provision of services, and our trade payables for goods and services from our suppliers. We leverage our scale to negotiate attractive contractual terms with our customers and suppliers. In addition, we intend to maintain appropriate inventory levels to meet the market demand for our products.

Capital Expenditures on Land Use Rights and Office Buildings

To accommodate our growth in staff headcount, as well as our expanding domestic and global footprint in the most cost-effective manner, we have acquired and will continue to acquire land use rights and dedicate resources towards the construction of office buildings in favorable locations, such as Beijing, Wuhan, Chengdu, Nanjing and Shenzhen. As we expand our footprint into more countries and regions, our capital expenditures may influence our overall liquidity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation from our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. We set forth below those accounting policies that we believe may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Our significant accounting policies, estimates, assumptions and judgments, which are important for understanding our financial condition and results of operations, are set forth in detail in Notes 2 and 4 to the Accountant's Report in Appendix I to this prospectus.

Revenue Recognition

We principally derive revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. We recognize revenue when the specific criteria have been met for each of our activities, as described below.

Sales of Products

Revenue from the sale of products, which mainly includes smartphones, IoT and lifestyle products, directly to our customers is recognized when the control of the goods has been transferred upon the acceptance of products by our customers. Customers have full discretion over the products, and there is no unfulfilled obligation that could affect customers' acceptance of the products.

We collect cash from our customers before or upon deliveries of products mainly through banks or third-party online payment platforms. Cash collected from our customers before the acceptance of products is recognized as advance from customers. In mainland China, we generally allow customers to return our products purchased online for any reason within seven days from the date of purchase except for certain limited products that we allow return only if the packages of the products are unpacked, and we generally allow customers to exchange any defective products within 15 days from the date of purchase. We base our estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Internet Services

Internet services primarily comprise advertising services and internet value-added services.

Advertising Services

We generate advertising revenues primarily from display-based and performance-based advertisements.

Revenue from display-based advertisements to our users of smartphones and other devices are recognized on a straight-line basis over the contract period.

Revenue from performance-based advertisements is recognized based on actual performance measurement. We recognize revenue from the delivery of advertisements, typically based on (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third-party apps are downloaded by users.

Internet Value-Added Services

We recognize revenues from internet valued-added services, including online games, on a gross or net basis depending on whether we are acting as a principal or an agent in the transaction. For online games, we defer related revenues, over the estimated user relationship periods, when there is an explicit or implicit obligation for us to maintain the relevant applications and allow users to have access to them.

We determine whether our revenue should be reported gross or net based on a continuing assessment of various factors. When determining whether we are acting as the principal or agent in offering services to a customer, we need to first identify who control the specified goods or services before the goods are sold or services are provided to the customer. We are a principal in a transaction if we obtain control of the goods or services before they are sold or provided to the customer. We are deemed to have control if we own: (i) a product or another asset from another party before the control is transferred to customers; (ii) a right to a service to be performed by another party, which provides us with the ability to direct such party to provide the service to customers on our behalf; or (iii) a product or service from another party before being combined with other products or services and provided to customers. If the control is unclear, we consider the following factors: (i) who is the primary obligor in the arrangement; (ii) who has latitude in establishing the selling price; and (iii) who has inventory risks. Therefore, we have adopted different revenue recognition methods based on our specific roles and responsibilities in different services offerings.

We do not expect to have any contracts under which the period between the transfer of the subject products or services to end customers and the payment by the customers exceeds one year. As a result, we do not adjust any of the transaction prices for the time value of money.

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial information of each of our entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of our Company is United States dollar. Our primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. We determined to present our historical financial information in RMB (unless otherwise stated).

Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements.

Foreign exchange gains and losses are presented as "other (losses)/gains, net" in our consolidated income statements.

Translation differences on non-monetary financial assets and liabilities, such as instruments held at fair value through profit or loss, are recognized in profit or loss as part of the fair value changes.

Group Companies

The results and financial position of all of our entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income ("**OCI**").

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the exchange rate on the closing date of the transaction. Currency translation differences are recognized in other comprehensive income.

Disposal of Foreign Operation and Partial Disposal

On the disposal of a foreign operation (that is, a disposal of our entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of our Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in us losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in our ownership interest in associates or joint ventures that do not result in us losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Financial assets

Classification

We classify our financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether we have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19 to the Accountant's Report in Appendix I to this prospectus for details of each type of financial asset.

We reclassify debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt Instruments

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which we classify our debt instruments:

- *Amortized cost*. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- *Fair value through other comprehensive income (“**FVOCI**”).* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other losses/gains, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other losses/gains, net and impairment expenses in other losses/gains, net.

- *Fair value through profit or loss*. Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within other losses/gains, net in the period in which it arises.

Equity Instruments

We subsequently measure all equity investments at fair value. There is no investment with fair value gains or losses present in other comprehensive income during the Track Record Period. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in the consolidated income statements. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

We have the following types of financial assets subject to IFRS 9's expected credit loss model:

- loans receivables from micro loans business;
- trade receivables for sales of goods or provision of services; and
- other receivables.

We assess the expected credit losses associated with its debt instruments carried at amortized cost on a forward-looking basis, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. See Note 3.1(b) to the Accountant's Report in Appendix I to this prospectus for details on how we determine whether there has been a significant increase in credit risk.

For trade receivables, we apply the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. If a significant increase in credit risk of a receivable has occurred since the initial recognition, then impairment is measured as lifetime expected credit losses.

Derecognition

Financial assets

We derecognize a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows from the financial asset have been transferred and we transfer substantially all the risks and rewards of ownership of such financial asset; or (iii) we retain the contractual rights to receive the cash flows of the financial asset, but assume a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of derecognition of transfer of cash flows ("pass through" requirement), and we transfer substantially all the risks and rewards of ownership of such financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized as profit or loss:

- the carrying amount of the financial asset transferred; and
- the sum of the consideration received from the transfer and any cumulative gains or losses that have been recognized directly in equity.

If we neither transfer nor retain substantially all the risks and rewards of ownership and continue to control the transferred asset, we continue to recognize the asset to the extent of its continuing involvement, and we recognize such asset as an associated liability.

Asset-backed securities

As part of our operations, we securitize financial assets related to internet finance business, generally through the sale of these assets to special purpose vehicles which issue securities to investors.

Other financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

Intangible Assets

Goodwill

Goodwill arises from the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Licenses

Licenses include third-party payment license and other licenses. Third-party payment license represents the license issued by Chinese government authorities that enable us to operate third-party payment business. Other licenses primarily include licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. Licenses that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives using the straight-line method which reflects the pattern in which future economic benefits of the intangible assets are expected to be consumed.

Trademarks, Patents and Domain Names

Separately acquired trademarks, patents and domain names are shown at historical cost. Trademarks, patents and domain names acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain names have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain names over their estimated useful lives of one to 16 years.

Other Intangible Assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded in amortization within operating expenses in the consolidated income statements.

Research and Development Expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

Convertible Redeemable Preferred Shares ("Preferred Shares")

Preferred shares issued by us are redeemable at the option of the holders at any time commencing on the redemption start date of December 23, 2019. This instrument can be converted into our Class B Shares at the option of a holder after July 3, 2015, or automatically converted into our Class B Shares upon occurrence of (i) the closing of a Qualified Public Offering ("**QPO**," as defined in Note 35 to the Accountant's Report in Appendix I to this prospectus) or (ii) with written consent of holders of more than fifty percent of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds of the issued and outstanding Preferred Shares (other than the Series A Preferred Shares), as detailed in Note 35 to the Accountant's Report in Appendix I to this prospectus.

We designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statements.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated income statements.

The Preferred Shares are classified as non-current liabilities because the Preferred Shares holders cannot demand us to redeem the Preferred Shares for at least 12 months after the end of the reporting period.

Share-based Compensation

We operate share-based compensation plans, under which we receive services from employees as consideration for our equity instruments. The fair value of the employee services received in exchange for the grant of equity instruments (options and restricted shares units ("**RSUs**")) is recognized as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the equity instruments (options and RSUs) granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining as an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

Non-market performance and service conditions are included in assumptions about the number of options and RSUs that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, we revise our estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. We recognize the impact of the revision to original estimates, if any, in our consolidated income statements, with a corresponding adjustment to equity.

In some circumstances employees may provide services in advance of the grant date, and therefore, the fair value on the grant date is estimated for the purposes of recognizing the expense during the period between service commencement date and grant date.

Inventories

Inventories, consisting principally of raw materials, work in progress, finished goods and spare parts, are stated at the lower of cost, using the weighted average method, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

Application of IFRS 15 and IFRS 9

IFRS 15 "Revenue from Contracts with Customers" replaces the previous revenue standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. IFRS 9 "Financial Instruments" replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". The standards are effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

We have applied IFRS 15 and IFRS 9 consistently in the Track Record Period. We have assessed the effects of the adoption of IFRS 15 and IFRS 9 on our financial statements and we consider that the adoption of these standards did not have significant impact on our financial position and performance during the Track Record Period.

CONSOLIDATED INCOME STATEMENTS

The following table sets forth a summary of our consolidated income statements with line items in absolute amounts and as percentages of our revenues for the periods indicated.

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
							(unaudited)			
Revenue	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0	18,531,793	100.0	34,412,362	100.0
Cost of sales	(64,111,325)	(96.0)	(61,184,806)	(89.4)	(99,470,537)	(86.8)	(16,067,675)	(86.7)	(30,110,935)	(87.5)
Gross profit	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2	2,464,118	13.3	4,301,427	12.5
Selling and marketing expenses	(1,912,765)	(2.9)	(3,022,313)	(4.4)	(5,231,540)	(4.6)	(726,857)	(3.9)	(1,402,829)	(4.1)
Administrative expenses	(766,252)	(1.1)	(926,833)	(1.4)	(1,216,110)	(1.1)	(240,209)	(1.3)	(465,323)	(1.4)
Research and development expenses	(1,511,815)	(2.3)	(2,104,226)	(3.1)	(3,151,401)	(2.7)	(604,689)	(3.3)	(1,103,775)	(3.2)
Fair value changes on investments measured at fair value through profit or loss	2,813,353	4.2	2,727,283	4.0	6,371,098	5.6	1,179,700	6.4	1,762,868	5.1
Share of (losses)/gains of investments accounted for using the equity method	(92,781)	(0.1)	(150,445)	(0.2)	(231,496)	(0.2)	(66,404)	(0.4)	16,329	0.0
Other income	522,436	0.8	540,493	0.8	448,671	0.4	24,156	0.1	158,226	0.5
Other (losses)/gains, net	(379,439)	(0.6)	(528,250)	(0.8)	72,040	0.1	(75,319)	(0.4)	97,567	0.3
Operating profit	1,372,670	2.0	3,785,064	5.5	12,215,467	10.7	1,954,496	10.5	3,364,490	9.7
Finance (expense)/ income, net	(85,867)	(0.1)	(86,246)	(0.1)	26,784	0.0	(12,121)	(0.1)	17,834	0.1
Fair value changes of convertible redeemable preferred shares	(8,759,314)	(13.1)	(2,523,309)	(3.7)	(54,071,603)	(47.2)	(9,464,478)	(51.1)	(10,071,376)	(29.3)
(Loss)/profit before income tax	(7,472,511)	(11.2)	1,175,509	1.7	(41,829,352)	(36.5)	(7,522,103)	(40.7)	(6,689,052)	(19.5)
Income tax expenses	(154,519)	(0.2)	(683,903)	(1.0)	(2,059,763)	(1.8)	(344,915)	(1.9)	(338,359)	(1.0)
(Loss)/profit for the year/period	(7,627,030)	(11.4)	491,606	0.7	(43,889,115)	(38.3)	(7,867,018)	(42.6)	(7,027,411)	(20.5)
Non-IFRS Measure: Adjusted (loss)/profit (unaudited)[1]	(303,887)	(0.5)	1,895,657	2.8	5,361,876	4.7	660,530	3.6	1,699,301	4.9

Notes:

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

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Our Company

Our business activities are regularly reviewed and evaluated by the chief operating decision-maker, who is responsible for allocating resources and assessing performance of our operating segment. Our chief operating decision-maker has been identified as our Chief Executive Officer, who makes strategic decisions and considers that our operations are operated and managed as four segments.

Revenue

During the Track Record Period, we generated revenues from four business segments: smartphones, IoT and lifestyle products, internet services and others. Our revenues from smartphones segment are derived from the sale of smartphones. Our revenues from the IoT and lifestyle products segment comprise revenues from sales of (i) our other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) our ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Our revenues from internet services segment are derived from advertising services and internet value-added services. Revenues from other segment are primarily derived from repair services for our hardware products.

The following table sets forth segment revenue both as an absolute amount and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Smartphones	53,715,410	80.4	48,764,139	71.3	80,563,594	70.3	12,193,852	65.8	23,239,490	67.5
IoT and lifestyle products	8,690,563	13.0	12,415,438	18.1	23,447,823	20.5	4,160,665	22.5	7,696,566	22.4
Internet services	3,239,454	4.9	6,537,769	9.6	9,896,389	8.6	2,029,637	10.9	3,231,350	9.4
Advertising services	1,820,637	2.7	3,838,420	5.6	5,614,389	4.9	1,008,338	5.4	1,874,024	5.4
Internet value-added services	1,418,817	2.2	2,699,349	4.0	4,282,000	3.7	1,021,299	5.5	1,357,326	4.0
Others	1,165,831	1.7	716,815	1.0	716,936	0.6	147,639	0.8	244,956	0.7
Total	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0	18,531,793	100.0	34,412,362	100.0

Geographically, we generated 93.9%, 86.6%, 72.0%, 76.8% and 63.8% of our revenues in mainland China in 2015, 2016 and 2017 and in the first quarter of 2017 and 2018, respectively. The following table sets forth revenues from mainland China and the rest of the world both as an absolute amount and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Mainland China	62,755,575	93.9	59,279,381	86.6	82,543,462	72.0	14,228,850	76.8	21,942,103	63.8
Rest of the world	4,055,683	6.1	9,154,780	13.4	32,081,280	28.0	4,302,943	23.2	12,470,259	36.2
Total	66,811,258	100.0	68,434,161	100.0	114,624,742	100.0	18,531,793	100.0	34,412,362	100.0

Smartphones

We sell our smartphones through our new retail channels directly to end users and through our online and offline distribution partners. We strive to offer our smartphones at price points that are accessible to the widest user base. The following table sets forth the average selling prices, the number of smartphones sold, and the total revenue from smartphone sales for the periods indicated.

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
Average selling price (RMB)[1]	807.2	879.9	881.3	931.9	817.9
Number of smartphones sold (thousands)	66,546	55,419	91,410	13,085	28,413
Total revenues from smartphones segment (RMB thousands)	53,715,410	48,764,139	80,563,594	12,193,852	23,239,490

Note:

(1) Averaging selling price equals our total revenue from smartphones segment divided by the total number of smartphones sold.

The average selling price of our smartphones fluctuated over the years due to various factors such as sales volume of differently priced models and the mix of sales channels. Revenues from the smartphone segment increased by 65.2% from 2016 to 2017, compared to a decrease of 9.2% from 2015 to 2016, and revenues from the smartphone segment increased by 90.6% from the three months ended March 31, 2017 to the three months ended March 31, 2018.

IoT and Lifestyle Products

We have significantly expanded our product categories during the Track Record Period and systematically introduced a series of popular products. In addition to our in-house products, we collaborate with our ecosystem partners to design and develop a wide range of smart home, health and fitness, travel, audio, kids and other IoT products, as well as certain lifestyle products, the sales of which has driven the growth of our user base. Our revenues from the sale of core in-house products (excluding smartphones), including laptops, smart TVs, AI speakers and smart routers, were RMB3,815.2 million, RMB4,626.7 million, RMB10,038.7 million and RMB3,765.4 million for the years ended December 31, 2015, 2016 and 2017 and the three months ended March 31, 2018, respectively. Our revenues from the sales of IoT and lifestyle products provided by our ecosystem partners were RMB4,875.4 million, RMB7,788.7 million, RMB13,409.1 million, and RMB3,931.2

million for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, respectively. The overall gross margin of our IoT and lifestyle products provided by our ecosystem partners is higher than the overall gross margin of our core in-house products (excluding smartphones), including laptops, smart TVs, AI speakers and smart routers.

Internet Services

The growth of our internet services revenues ultimately depends on the size of our user base and the level of user engagement and spending. MAUs of our MIUI operating system increased by 20.1% from 112.2 million in December 2015 to 134.8 million in December 2016, and further by 26.7% to 170.8 million in December 2017. Between March 2017 and March 2018, MIUI MAU increased by 37.4% from 138.3 million to 190.0 million. Average internet services revenues per user, calculated as the ratio of internet services revenues for the period divided by the MAUs in last month for such period, increased from RMB28.9 in 2015 to RMB48.5 in 2016, and further to RMB57.9 in 2017, and from RMB14.7 in the first quarter of 2017 to RMB17.0 in the first quarter of 2018. We derive our internet services revenues from advertising and internet value-added services, which mainly include online games. The following table sets forth internet services revenues from advertising and internet value-added services, both as an absolute amount and as a percentage of total internet services revenues for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Advertising services	1,820,637	56.2	3,838,420	58.7	5,614,389	56.7	1,008,338	49.7	1,874,024	58.0
Internet value-added services	1,418,817	43.8	2,699,349	41.3	4,282,000	43.3	1,021,299	50.3	1,357,326	42.0
Total	3,239,454	100.0	6,537,769	100.0	9,896,389	100.0	2,029,637	100.0	3,231,350	100.0

We generate advertising revenue primarily by offering advertisements through our online distribution channels, which include our mobile apps and smart TVs. We offer diverse types of advertising formats, such as display and performance-based advertising, to our advertising customers to suit their particular business needs and marketing goals. Revenue from display-based advertisements to the users of online, mobile platforms and other devices operated by us are recognized on a straight-line basis over the contract period. Revenue from performance-based advertisements is recognized based on actual performance measurement. We recognize the revenue from the delivery of such advertisements typically based on a per-click basis when the users click on the content, on a per-impression basis when the advertising content is displayed to users, or on a per-download basis, when the third-party apps is downloaded by users.

For online games operations, we primarily generate revenue from sales of virtual currency for purchase of virtual items that can be used in the games we operate, which is subject to the revenue-sharing arrangements with third-party game developers. Revenues from online games operations amounted to RMB1,334.5 million, RMB2,135.0 million, RMB2,546.1 million, RMB671.5 million and RMB770.7 million in 2015, 2016 and 2017 and in the first quarter of 2017 and 2018, respectively.

Our other sources of internet value-added service revenues are mainly from paid subscription by users of premium entertainment content (such as online videos, literature and music), as well as live streaming and internet financial services.

Others

Revenues from other segment are primarily derived from repair services for our hardware products.

Cost of Sales

Our cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for our in-house products, (ii) assembly cost charged by our outsourcing partners for our in-house products, (iii) royalty fees for certain technologies embedded in our in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to our partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. Our cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs.

The following table sets forth our cost of sales by segment and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)									
							(unaudited)			
Smartphones	53,886,309	80.7	47,082,377	68.8	73,462,255	64.1	11,475,466	61.9	22,049,712	64.1
IoT and lifestyle products	8,655,686	13.0	11,402,565	16.7	21,496,958	18.8	3,690,751	19.9	6,718,684	19.5
Internet services	1,160,777	1.7	2,329,294	3.4	3,935,638	3.4	804,712	4.4	1,219,413	3.5
Advertising services	162,359	0.2	552,949	0.8	1,024,581	0.9	164,343	0.9	332,564	1.0
Internet value-added services(1)	998,418	1.5	1,776,345	2.6	2,911,057	2.5	640,369	3.5	886,849	2.5
Others	408,553	0.6	370,570	0.5	575,686	0.5	96,746	0.5	123,126	0.4
Total	64,111,325	96.0	61,184,806	89.4	99,470,537	86.8	16,067,675	86.7	30,110,935	87.5

Notes:

(1) The cost of sales of online games operations amounted to RMB807.2 million, RMB1,154.8 million, RMB1,435.0 million, RMB331.4 million and RMB430.5 million for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, respectively, and was 1.2%, 1.7%, 1.3%, 1.8% and 1.3% as a percentage of total revenues for the same periods, respectively.

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)				
				(unaudited)	
Cost of inventories sold	59,224,465	55,575,050	89,468,462	14,362,625	27,163,131
Royalty fees	1,631,909	1,895,042	3,447,479	533,884	780,894
Warranty expenses	1,260,386	1,036,167	1,828,622	260,881	586,245
Content fees to game developers and video providers	737,579	1,071,883	1,383,626	306,337	420,924
Cloud service, bandwidth and server custody fees	313,645	601,492	929,872	204,590	334,998
Provision for impairment of inventories	776,989	280,045	652,560	67,275	321,765
Others	166,352	725,127	1,759,916	332,083	502,978
Total	64,111,325	61,184,806	99,470,537	16,067,675	30,110,935

Gross Profit

The following table sets forth our gross profit in absolute amounts and as a percentage of revenues, or gross margins, for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Gross profit	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2	2,464,118	13.3	4,301,427	12.5

The following table sets forth our gross (loss)/profit and gross margin by segment for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Smartphones	(170,899)	(0.3)	1,681,762	3.4	7,101,339	8.8	718,386	5.9	1,189,778	5.1
IoT and lifestyle products	34,877	0.4	1,012,873	8.2	1,950,865	8.3	469,914	11.3	977,882	12.7
Internet services	2,078,677	64.2	4,208,475	64.4	5,960,751	60.2	1,224,925	60.4	2,011,937	62.3
Advertising services	1,658,278	91.1	3,285,471	85.6	4,589,808	81.8	843,995	83.7	1,541,460	82.3
Internet value-added services[1]	420,399	29.6	923,004	34.2	1,370,943	32.0	380,930	37.3	470,477	34.7
Others	757,278	65.0	346,245	48.3	141,250	19.7	50,893	34.5	121,830	49.7
Total	2,699,933	4.0	7,249,355	10.6	15,154,205	13.2	2,464,118	13.3	4,301,427	12.5

Notes:

(1) The gross profit from online games operations amounted to RMB527.3 million, RMB980.2 million, RMB1,111.1 million, RMB340.1 million and RMB340.2 million for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, respectively. The gross margin of online games operations was 39.5%, 45.9%, 43.6%, 50.6% and 44.1% for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, respectively.

The gross loss in our smartphones segment in 2015 was primarily because of higher proportion of products sold in the period were of relatively lower margins. We expanded internationally at scale starting from 2015 and the early stage of our international operations and investments to build a presence in overseas markets in 2015 contributed to our gross loss in our smartphones segment in 2015.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) offline promotional and advertising expenses, (ii) online promotional and advertising expenses, (iii) employee benefit expenses (including salaries, bonuses and share-based compensation) relating to selling and marketing personnel, and (iv) freight and transportation expenses. Offline promotional and advertising activities primarily include the placement of physical advertisements in mass transit stations, on billboards and in residential and commercial buildings. Online promotional and advertising activities primarily include advertising in films and TV series, on internet video platforms, in popular mobile apps and through search engines, as well as celebrity endorsements. Freight and transportation expenses represent such expenses incurred in the shipment of our products to customers.

The following table sets forth a breakdown of our selling and marketing expenses for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)			(unaudited)	
Promotion and advertising expenses	152,909	963,418	1,921,590	163,407	337,599
Employee benefit expenses	661,082	863,045	1,210,186	137,991	414,537
Freight and transportation expenses	618,843	583,897	1,016,117	180,482	343,325
Others	479,931	611,953	1,083,647	244,977	307,368
Total	**1,912,765**	**3,022,313**	**5,231,540**	**726,857**	**1,402,829**

Selling and marketing expenses increased significantly during the Track Record Period primarily due to (i) an expanded sales and marketing team dedicated to promoting our brand, products and services along with the rapid growth of Mi Home network, (ii) the increased promotional activities in mainland China and the rest of the world, and (iii) between 2016 and 2017, increase in freight and transportation expenses as a result of increased shipment volume of our products and our rapid overseas expansion.

Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses (including salaries, bonuses and share-based compensation) relating to administrative personnel, (ii) certain third-party consulting and professional service fees, (iii) depreciation and amortization expenses allocated to administrative expenses, and (iv) rent, utility and other office expenses allocated to administrative expenses.

During the Track Record Period, administrative expenses increased steadily primarily due to increased headcount in line with our expanding business operations and, to a lesser extent, increased professional fees.

Research and Development Expenses

Our research and development expenses primarily comprise (i) employee benefit expenses (including salaries, bonuses and share-based compensation) relating to research and development personnel, (ii) sample testing, data service and certification expenses, (iii) certain third-party consulting and professional service fees and (iv) rent, utility and other office expenses allocated to research and development expenses.

The following table sets forth a breakdown of our research and development expenses for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)			(unaudited)	
Employee benefit expenses	1,023,415	1,443,244	2,239,765	450,909	798,720
Research and development expenditures[1]	290,477	317,321	500,369	94,027	125,032
Consultancy and professional service fees	77,909	170,691	139,032	8,295	28,704
Utilities and office expenses	33,703	53,065	114,614	15,696	32,202
Others	86,311	119,905	157,621	35,762	119,117
Total	**1,511,815**	**2,104,226**	**3,151,401**	**604,689**	**1,103,775**

Notes:

(1) Research and development expenditures primarily include sample testing, data service and certification expenses.

The increase in research and development expenses during the Track Record Period was primarily due to an increase in the number of research and development personnel.

Share-based Compensation

In May 2011, our Directors approved the Xiaomi Corporation 2011 Employee Stock Option Plan, which was further superseded in its entirety as the Pre-IPO ESOP to attract, motivate, retain and reward certain employees and directors. We are authorized to grant share options and RSUs to our employees and directors under the Pre-IPO ESOP. Share-based compensation expenses constitute a portion of salaries and benefits, which will be reflected in our selling and marketing expenses, administrative expenses and research and development expenses.

In terms of the share options we have awarded to our employees, we used the discounted cash flow method to determine the underlying equity fair value of our Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by us with best estimate. Based on fair value of the underlying ordinary shares, we have used binomial option-pricing model to determine the fair value of the share option as at the grant date. We established a development fund in August 2014 and invited certain of our employees to participate in the fund (the "**Employee Fund**"). See Note 29 to the Accountant's Report included in Appendix I to this prospectus for details regarding the Employee Fund.

The total expenses recognized in the expenses lines of our consolidated income statements for the Pre-IPO ESOP granted to our employees were RMB621.6 million, RMB813.9 million, RMB807.9 million, RMB92.6 million and RMB476.4 million for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, respectively. We will continue to incur expenses in connection with any further grants under the Post-IPO Share Option Scheme and the Employee Fund, and will incur additional expenses to the extent that additional share options and RSUs are granted in the future.

Fair Value Changes on Investments Measured at Fair Value through Profit or Loss

We recognize the fair value changes on the following types of investments in profits or losses: (i) short-term investments measured at fair value through profit or loss, which are RMB-denominated wealth management products whose returns are not guaranteed, (ii) equity investments other than those accounted for using the equity method, and (iii) investments in convertible redeemable preferred shares or ordinary shares with preferential rights.

The following table sets forth a breakdown of our fair value changes on investments measured at fair value through profit or loss by asset class for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)				
				(unaudited)	
Fair value changes on short-term investments measured at fair value through profit or loss	11,943	4,537	21,076	535	11,654
Fair value changes on long-term investments measured at fair value through profit or loss[1]	2,801,410	2,722,746	6,350,022	1,179,165	1,751,214
Total	2,813,353	2,727,283	6,371,098	1,179,700	1,762,868

Notes:

(1) Represents (i) fair value changes on equity investments and (ii) fair value changes on preferred shares investments.

Share of (Losses)/Gains of Investments Accounted for Using the Equity Method

We recorded share of (losses)/gains from investments primarily because we had accounted for several investee companies that had losses using the equity method during the Track Record Period.

As of March 31, 2018, the total portfolio value of our investments amounted to approximately RMB22,587.9 million as calculated by the sum of (i) RMB7,544.0 million of fair value of our equity investments measured at fair value through profit or loss; (ii) RMB12,375.2 million of preferred shares investments measured at fair value through profit or loss; and (iii) RMB2,668.7 million of carrying amount of our investments accounted for using the equity method.

Other Income

Our other income primarily includes (i) government grants, (ii) value-added tax and other tax refunds, (iii) dividend income and (iv) income from wealth management products.

The following table sets forth a breakdown of our other income by amount and as a percentage of our total revenues for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Government grants	87,698	0.1	217,046	0.3	121,151	0.1	7,556	0.0	88,281	0.3
Value-added tax and other tax refunds	38,017	0.1	121,939	0.2	3,738	0.0	17	0.0	12,369	0.0
Dividend income	3,652	0.0	96,328	0.1	106,291	0.1	2,704	0.0	—	—
Income from wealth management products(1)	393,069	0.6	105,180	0.2	217,491	0.2	13,879	0.1	57,576	0.2
Total	522,436	0.8	540,493	0.8	448,671	0.4	24,156	0.1	158,226	0.5

Notes:

(1) Represents (i) investment income from short-term investments measured at fair value through profit or loss and (ii) interest income from short-term investments measured at amortized cost.

Other (Losses)/Gains, Net

Our other (losses)/gains, net primarily include (i) gains on disposal of investments, (ii) remeasurement of loss of significant influence in an associate, (iii) foreign exchanges losses, net, and (iv) impairment on investments accounted for using the equity method. Gains on disposal of investments primarily arise from disposal of our equity investments in our investee companies. Foreign exchanges losses, net are incurred primarily due to fluctuations in exchange rates between RMB and U.S. dollars.

The following table sets forth a breakdown of our other (losses)/gains, net, by amount and as a percentage of our total revenues for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Gains on disposal of investments(1)	533,516	0.8	29,490	0.0	283,437	0.3	3	0.0	31,073	0.1
Remeasurement and impairment on investments(2)	(421,717)	(0.6)	(511,532)	(0.7)	—	—	—	—	126,614	0.4
Foreign exchanges losses, net	(506,528)	(0.8)	(54,291)	(0.1)	(144,265)	(0.1)	(76,654)	(0.4)	(28,137)	(0.1)
Others	15,290	0.0	8,083	0.0	(67,132)	(0.1)	1,332	0.0	(31,983)	(0.1)
Total	(379,439)	(0.6)	(528,250)	(0.8)	72,040	0.1	(75,319)	(0.4)	97,567	0.3

Notes:

(1) Represents (i) net gains on disposal of long-term investments measured at fair value through profit or loss and (ii) net gain on disposal of investments accounted for using the equity method.

(2) Represents (i) remeasurement of investments transferring from financial asset measured at fair value through profit or loss to investments accounted for using the equity method, (ii) remeasurement of loss of significant influence in an associate and (iii) impairment on investments accounted for using the equity method.

Operating Profit

The following table sets forth our operating profit in absolute amounts and as a percentage of our revenues, or operating margin, for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Operating profit . .	1,372,670	2.0	3,785,064	5.5	12,215,467	10.7	1,954,496	10.5	3,364,490	9.7

Finance (Expense)/Income, Net

Finance (expense)/income, net represents finance income net against finance costs. Finance income consists of interest income from bank deposits, including bank balance and term deposits, whereas finance cost consists of interest expenses.

Fair Value Changes of Convertible Redeemable Preferred Shares

Fair value changes of convertible redeemable preferred shares represent changes in fair value of the Preferred Shares issued by us. For the years ended December 31, 2015, 2016 and 2017 and for the first quarter of 2017 and 2018, our fair value changes of convertible redeemable preferred shares were RMB8.8 billion, RMB2.5 billion, RMB54.1 billion, RMB9.5 billion and RMB10.1 billion, respectively. Prior to the Global Offering, the Preferred Shares are not traded in an active market and the fair value at respective reporting dates is determined using valuation techniques. Please refer to Note 35 to the Accountant's Report included in Appendix I to this prospectus for details of the key assumptions in the valuations. Upon the completion of the Global Offering, all of our Preferred Shares will be automatically converted to our Class B Shares. The fair value of each of Preferred Share will then be equivalent to the fair value of each of our ordinary shares on the conversion date, which is the Offer Price in the Global Offering.

We designate Preferred Shares as financial liabilities at fair value. Any changes in the fair value of the Preferred Shares are recorded as "fair value changes of convertible redeemable preferred shares" in the consolidated income statements.

Taxation

Income tax expense was RMB154.5 million, RMB683.9 million, RMB2.1 billion, RMB344.9 million and RMB338.4 million for 2015, 2016 and 2017 and for the first quarter of 2017 and 2018, respectively. As of the Latest Practicable Date, we did not have any dispute with any tax authority. We are subject to various rates of income tax under different jurisdictions. The following summarizes the major factors affecting our applicable tax rates in the Cayman Islands, the BVI, Hong Kong, mainland China and India.

Cayman Islands and the British Virgin Islands

We are incorporated under the laws of the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the

Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company. Our BVI companies limited by shares incorporated or registered with limited liability under the BVI Business Companies Act (as amended) are currently exempt from income and corporate tax. In addition, BVI does not levy capital gains tax on companies incorporated or registered under the BVI Business Companies Act (as amended).

Hong Kong

Hong Kong profits tax rate was 16.5% on the assessable profits during the Track Record Period, based on the existing legislation, interpretation and practices in respect thereof.

Mainland China

Our income tax provision in respect of our operations in mainland China was calculated at tax rate of 25% on the assessable profits during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Certain of our subsidiaries were entitled to preferential tax rates ranging from 9% to 15%. Beijing Xiaomi Mobile Software Co., Ltd. was accredited as a software enterprise under the relevant Chinese laws and regulations in 2012. Accordingly, Beijing Xiaomi Mobile Software Co., Ltd. was exempt from income tax for two years, between 2012 and 2013, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years, between 2014 and 2016. Beijing Xiaomi Mobile Software Co., Ltd. also qualifies as a "high and new technology enterprise," and it enjoys a preferential income tax rate of 15% commencing from 2017. Tibet Zimi Communications Co., Ltd., established in the Tibet Autonomous Region of mainland China, is entitled to a preferential rate of 9% for the years ended December 31, 2015, 2016 and 2017 and 15% for the three months ended March 31, 2018.

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that were effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). We have made our best estimate for the Super Deduction to be claimed for our entities in ascertaining their assessable profits during the Track Record Period.

India

The income tax provision for our entity in India was calculated at effective tax rates of 30% to 35% on the assessable profits during the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Profit/(Loss)

The following table sets forth our profit/(loss) in absolute amounts and as a percentage of our revenues, or net margin, for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except percentages)						(unaudited)			
Profit/(loss)	(7,627,030)	(11.4)	491,606	0.7	(43,889,115)	(38.3)	(7,867,018)	(42.6)	(7,027,411)	(20.5)

Our Board has resolved that for the year ending December 31, 2018 and each year thereafter, we will limit the net margin after tax for our entire hardware business (including smartphone, IoT and lifestyle products) (the "**Margin**"), to a maximum of 5%. The Margin is calculated based on the following formula (the "**Formula**"):

- the Margin = the net profits after tax relating to the sales of our entire hardware business based on our management accounts for a financial year (the "**Net Profit**") / the revenue of the entire hardware business for the same financial year; and
- the Net Profit = (revenue from the entire hardware business – cost of goods sold relating to the entire hardware business – the selling and marketing expenses, research and development expenses and administrative expenses relating to the sales of the entire hardware business) X (1 – the Group's effective tax rate for the preceding financial year).

The expenses cited in the Formula exclude any expenses related to share based compensation. If the actual Margin achieved for any financial year exceeds 5% calculated based on the Formula, we will distribute the amount of net profit earned exceeding 5% to our customers in general by way of reasonable means as our Board may determine from time to time.

NON-IFRS MEASURE: ADJUSTED (LOSS)/PROFIT

To supplement our consolidated results which are prepared and presented in accordance with IFRS, we also use adjusted (loss)/profit as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends relation to its financial condition and results of operations, by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and certain impact of investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating the Group's operating performances. From time to time in the future, there may be other items that the Company may exclude in reviewing its financial results. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies.

The following tables set forth the reconciliations of our non-IFRS financial measure for the three months ended March 31, 2018 and 2017 and for the years ended December 31, 2017, 2016 and 2015 to the nearest measures prepared in accordance with IFRS:

	Three Months Ended March 31, 2018					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the period	(7,027,411)	10,071,376	488,237	(1,833,421)	520	1,699,301
Net margin	(20.5)%					4.9%

	Three Months Ended March 31, 2017					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the period	(7,867,018)	9,464,478	136,176	(1,073,717)	611	660,530
Net margin	(42.6)%					3.6%

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

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

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

Notes:

(1) Includes fair value gains on equity investments and preferred shares investments deducting the cumulative fair value changes for investments disposed in the current period, the impairment provision for investments, remeasurement of loss of significant influence in an associate and remeasurement of investments transferring from financial asset measured at fair value through profit or loss to investments using the equity method, net of tax.

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

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Revenues

Our total revenues increased by 85.7% from RMB18.5 billion in the three months ended March 31, 2017 to RMB34.4 billion in the three months ended March 31, 2018. Our revenues in mainland China increased by 54.2% from RMB14.2 billion in the three months ended March 31, 2017 to RMB21.9 billion in the three months ended March 31, 2018, and our overseas revenues increased by 189.8% from RMB4.3 billion in the three months ended March 31, 2017 to RMB12.5 billion in the three months ended March 31, 2018.

Smartphones

Our revenues from the smartphones segment increased by 90.6% from RMB12.2 billion in the three months ended March 31, 2017 to RMB23.2 billion in the three months ended March 31, 2018, primarily due to an increase in the number of smartphones sold, partially offset by the decrease in average selling price. We sold approximately 28.4 million units of smartphones in the three months ended March 31, 2018, compared to approximately 13.1 million units sold in the three months ended March 31, 2017. The average selling price of our smartphones was RMB817.9 per unit in the three months ended March 31, 2018, compared with RMB931.9 per unit in the three months ended March 31, 2017, as we sold a higher portion of a few specific smartphone models with lower prices in line with our planned product cycle.

IoT and lifestyle products

Our revenues from the IoT and lifestyle products segment increased by 85.0% from RMB4.2 billion in the three months ended March 31, 2017 to RMB7.7 billion in the three months ended March 31, 2018, primarily due to the continued increase in the sales of our existing products, such as smart TVs and laptops. Revenues from the sales of our key IoT products, including smart TVs and laptops, increased by 167.9% from RMB1,192.8 million in the three months ended March 31, 2017 to RMB3,195.9 million in the three months ended March 31, 2018.

Internet services

Our revenues from internet services segment increased by 59.2% from RMB2.0 billion in the three months ended March 31, 2017 to RMB3.2 billion in the three months ended March 31, 2018, primarily due to the increase in revenues from advertising and game operations. MIUI MAUs increased by 37.4% from 138.3 million in March 2017 to 190.0 million in March 2018. Average internet services revenues per user, calculated as the ratio of internet services revenues for the three months ended March 31 divided by the MAUs in March for such year, increased from RMB14.7 in the three months ended March 31, 2017 to RMB17.0 in the three months ended March 31, 2018.

Others

Our revenues from others segment increased by 65.9% from RMB147.6 million in the three months ended March 31, 2017 to RMB245.0 million in the three months ended March 31, 2018, primarily due to the increased hardware repair revenues.

Cost of sales

Our cost of sales increased by 87.4% from RMB16.1 billion in the three months ended March 31, 2017 to RMB30.1 billion in the three months ended March 31, 2018.

Smartphones

Cost of sales related to the smartphones segment increased by 92.1% from RMB11.5 billion in the three months ended March 31, 2017 to RMB22.0 billion in the three months ended March 31, 2018, primarily due to the increased sales of our smartphones. The cost of inventories sold of smartphones segment increased by 93.4% from RMB10.6 billion in the three months ended March 31, 2017 to RMB20.5 billion in the three months ended March 31, 2018. Royalty fees paid to third-party intellectual property holders increased by 44.9% from RMB526.1 million in the three months ended March 31, 2017 to RMB762.3 million in the three months ended March 31, 2018. Warranty expenses increased by 129.1% from RMB223.7 million in the three months ended March 31, 2017 to RMB512.6 million in the three months ended March 31, 2018, and provision for impairment of inventories increased by 252.5% from RMB70.6 million in the three months ended March 31, 2017 to RMB248.9 million in the three months ended March 31, 2018, due to increased inventory in preparation for future sales.

IoT and lifestyle products

Cost of sales in the IoT and lifestyle products segment increased by 82.0% from RMB3.7 billion in the three months ended March 31, 2017 to RMB6.7 billion in the three months ended March 31, 2018, primarily due to the increased sales of our laptops and smart TVs.

Internet services

Cost of sales related to the internet services segment increased by 51.5% from RMB804.7 million in the three months ended March 31, 2017 to RMB1.2 billion in the three months ended March 31, 2018, primarily due to increased amount of revenues shared with game developers as well as increased infrastructure service spending resulting from higher user traffic and engagement. Revenues shared with game developers increased by 30.5% from RMB277.9 million in the three months ended March 31, 2017 to RMB362.6 million in the three months ended March 31, 2018. Cloud service, bandwidth and server custody fees increased by 63.7% from RMB204.6 million in the three months ended March 31, 2017 to RMB335.0 million in the three months ended March 31, 2018.

Others

Cost of sales in our others segment increased by 27.3% from RMB96.7 million in the three months ended March 31, 2017 to RMB123.1 million in the three months ended March 31, 2018, primarily due to the increased hardware repair costs.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 74.6% from RMB2.5 billion in the three months ended March 31, 2017 to RMB4.3 billion in the three months ended March 31, 2018. The gross profit margin from our smartphones segment decreased from 5.9% in the three months ended March 31, 2017 to 5.1% in the three months ended March 31, 2018, primarily because we sold a higher portion of a few specific smartphone models with lower prices in line with our planned product cycle. The gross profit margin from our IoT and lifestyle products segment increased from 11.3% in the three months ended March 31, 2017 to 12.7% in the three months ended March 31, 2018. The gross profit margin from our internet services segment increased from 60.4% in the three months ended March 31, 2017 to 62.3% in the three months ended March 31, 2018. As a result of the foregoing, our gross margin decreased from 13.3% in the three months ended March 31, 2017 to 12.5% in the three months ended March 31, 2018.

Selling and marketing expenses

Our selling and marketing expenses increased by 93.0% from RMB726.9 million in the three months ended March 31, 2017 to RMB1.4 billion in the three months ended March 31, 2018, primarily due to the increases in salaries and benefits for selling and marketing personnel, promotional and advertising expenses, as well as packaging and transportation expenses. Promotional and advertising expenses increased by 106.6% from RMB163.4 million in the three months ended March 31, 2017 to RMB337.6 million in the three months ended March 31, 2018, primarily due to increased promotional activities during the period. Salaries and benefits (including employee benefit expenses and share-based compensation) relating to selling and marketing personnel increased primarily due to increased headcount.

Administrative expenses

Our administrative expenses increased by 93.7% from RMB240.2 million in the three months ended March 31, 2017 to RMB465.3 million in the three months ended March 31, 2018, primarily due to the increase in salaries and benefits (including employee benefit expenses and share-based compensation) as a result of the increased headcount of administrative personnel.

Research and development expenses

Our research and development expenses increased by 82.5% from RMB604.7 million in the three months ended March 31, 2017 to RMB1.1 billion in the three months ended March 31, 2018, primarily due to the increase in the total compensation relating to research and development personnel. Salaries and benefits (including employee benefit expenses and share-based compensation) relating to research and development personnel increased primarily due to increased headcount. Our research and development personnel headcount increased by 50.1% from 3,675 as of March 31, 2017 to 5,515 as of March 31, 2018.

Fair value changes on investments measured at fair value through profit or loss

Our fair value changes on investments measured at fair value through profit or loss increased by 49.4% from RMB1.2 billion in the three months ended March 31, 2017 to RMB1.8 billion in the three months ended March 31, 2018, primarily due to fair value gains in several of our investee companies.

Share of (losses)/gains of investments accounted for using the equity method

Our share of (losses)/gains of investments accounted for using the equity method changed from a loss of RMB66.4 million in the three months ended March 31, 2017 to a gain of RMB16.3 million in the three months ended March 31, 2018, primarily due to the gains in our investee companies.

Other income

Our other income increased significantly by 555.0% from RMB24.2 million in the three months ended March 31, 2017 to RMB158.2 million in the three months ended March 31, 2018, primarily due to increases in government grants.

Other (losses)/gains, net

Our other (losses)/gains, net changed from a net loss of RMB75.3 million in the three months ended March 31, 2017 to a net gain of RMB97.6 million in the three months ended March 31, 2018, primarily due to an increase in remeasurement of investments transferring from financial assets measured at fair value through profit or loss to investments accounted for using the equity method.

Operating profit

As a result of the foregoing, we had operating profits of RMB2.0 billion and RMB3.4 billion in the three months ended March 31, 2017 and 2018, respectively.

Finance (expense)/income, net

We had a net finance expense of RMB12.1 million in the three months ended March 31, 2017 and a net finance income of RMB17.8 million in the three months ended March 31, 2018.

Fair value changes of convertible redeemable preferred shares

Changes in the fair value of convertible redeemable preferred shares were recorded as "fair value changes of convertible redeemable preferred shares." Fair value changes of convertible redeemable preferred shares increased from a loss of RMB9.5 billion in the three months ended March 31, 2017 to a loss of RMB10.1 billion in the three months ended March 31, 2018, resulting from changes in the valuation of our Company. See Note 35 to the Accountant's Report included in Appendix I to this prospectus for details regarding the change in fair value of convertible redeemable preferred shares.

Loss before income tax

As a result of the foregoing, we had losses before income tax of RMB7.5 billion and RMB6.7 billion in the three months ended March 31, 2017 and 2018, respectively.

Income tax expenses

Our income tax expenses remained relatively stable, at RMB344.9 million in the three months ended March 31, 2017 and at RMB338.4 million in the three months ended March 31, 2018.

Loss for the period

As a result of the foregoing, we had losses of RMB7.9 billion and RMB7.0 billion in the three months ended March 31, 2017 and 2018, respectively.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Revenues

Our total revenues increased by 67.5% from RMB68.4 billion in 2016 to RMB114.6 billion in 2017. Our revenues in mainland China increased by 39.2% from RMB59.3 billion in 2016 to RMB82.5 billion in 2017, and our overseas revenues significantly increased by 250.4% from RMB9.1 billion in 2016 to RMB32.1 billion in 2017.

Smartphones

Our revenues from the smartphones segment increased by 65.2% from RMB48.8 billion in 2016 to RMB80.6 billion in 2017, primarily due to a significant increase in the number of smartphones sold. We sold approximately 91.4 million units of smartphones in 2017, compared to approximately 55.4 million units sold in 2016. The average selling price of our smartphones was RMB881.3 per unit in 2017, compared with RMB879.9 per unit in 2016.

IoT and lifestyle products

Our revenues from the IoT and lifestyle products segment increased by 88.9% from RMB12.4 billion in 2016 to RMB23.5 billion in 2017, primarily due to a significant expansion of our IoT and lifestyle product offerings, and a continued increase in the popularity of existing products among consumers, such as smart TVs and laptops. Revenues from the sales of our key IoT products, including smart TVs and laptops, increased by 146.5% from RMB3,372.2 million in 2016 to RMB8,312.4 million in 2017.

Internet services

Our revenues from internet services segment increased by 51.4% from RMB6.5 billion in 2016 to RMB9.9 billion in 2017, primarily due to an increase in revenues from advertising and game operations. MIUI MAUs increased by 26.7% from 134.8 million in December 2016 to 170.8 million in December 2017. Average internet services revenues per user, calculated as the ratio of internet services revenues for a year divided by the MAUs in December for such year, increased from RMB48.5 in 2016 to RMB57.9 in 2017.

Others

Our revenues from others segment remained stable from RMB716.8 million in 2016 to RMB716.9 million in 2017.

Cost of sales

Our cost of sales increased by 62.6% from RMB61.2 billion in 2016 to RMB99.5 billion in 2017.

Smartphones

Cost of sales related to the smartphones segment increased by 56.0% from RMB47.1 billion in 2016 to RMB73.5 billion in 2017, primarily due to increased cost associated with the increased sales of our smartphones. The cost of inventories sold of smartphones segment increased by 53.7% from

RMB44.1 billion in 2016 to RMB67.8 billion in 2017. Royalty fees paid to third-party intellectual property holders increased by 78.9% from RMB1.9 billion in 2016 to RMB3.4 billion in 2017. Warranty expenses increased by 77.8% from RMB0.9 billion in 2016 to RMB1.6 billion in 2017, and provision for impairment of inventories increased by 178.6% from RMB203.0 million in 2016 to RMB565.6 million in 2017.

IoT and lifestyle products

Cost of sales in the IoT and lifestyle products segment increased by 88.5% from RMB11.4 billion in 2016 to RMB21.5 billion in 2017, which was generally consistent with the increase in IoT and lifestyle product revenues.

Internet services

Cost of sales related to the internet services segment increased by 69.0% from RMB2.3 billion in 2016 to RMB3.9 billion in 2017, primarily due to increased amount of revenues shared with game developers as well as our increased infrastructure spending resulting from higher user traffic and engagement. Revenues shared with game developers increased by 20.0% from RMB1.0 billion in 2016 to RMB1.2 billion in 2017. Cloud service, bandwidth and server custody fees increased by 54.6% from RMB601.5 million in 2016 to RMB929.9 million in 2017.

Others

Cost of sales in our others segment increased by 55.4% from RMB370.6 million in 2016 to RMB575.7 million in 2017, primarily due to the increased hardware repair costs.

Gross profit and gross margin

As a result of the foregoing, our gross profit significantly increased by 109.0% from RMB7.2 billion in 2016 to RMB15.2 billion in 2017. The gross profit margin from our smartphones segment increased significantly from 3.4% in 2016 to 8.8% in 2017 primarily due to changes in product mix. The gross profit margin from our IoT and lifestyle products segment remained relatively stable, at 8.2% in 2016 and 8.3% in 2017. The gross profit margin from our internet services segment decreased from 64.4% in 2016 to 60.2% in 2017, as we significantly improved the quality of our internet services, which resulted in faster growth in our cloud service, bandwidth and server custody fees over our segment revenues. Furthermore, internet financial services, which has a relatively lower gross margin compared to other internet value-added services, contributed a larger portion to our internet services segment revenues. As a result of the foregoing, our gross margin increased from 10.6% in 2016 to 13.2% in 2017.

Selling and marketing expenses

Our selling and marketing expenses increased by 73.1% from RMB3.0 billion in 2016 to RMB5.2 billion in 2017, primarily due to increases in promotional and advertising expenses, as well as salaries and benefits for selling and marketing personnel. Promotional and advertising expenses increased significantly by 99.5% from RMB963.4 million in 2016 to RMB1.9 billion in 2017, primarily due to our enhanced promotion and advertising activities for our newly launched products and our brand in general. Salaries and benefits (including employee benefit expenses and share-based compensation) relating to selling and marketing personnel increased primarily due to increased headcount.

Administrative expenses

Our administrative expenses increased by 31.2% from RMB0.9 billion in 2016 to RMB1.2 billion in 2017, primarily due to the increase in salaries and benefits (including employee benefit expenses and share-based compensation) as a result of the increased headcount of administrative personnel.

Research and development expenses

Our research and development expenses increased by 49.8% from RMB2.1 billion in 2016 to RMB3.2 billion in 2017, primarily due to an increase in the total compensation relating to research and development personnel as a result of the increased headcount as well as an increase in sample testing and certification expenses. Salaries and benefits (including employee benefit expenses and share-based compensation) relating to research and development personnel increased primarily due to increased headcount. Our research and development personnel headcount increased by 52.5% from 3,441 as of December 31, 2016 to 5,247 as of December 31, 2017.

Fair value changes on investments measured at fair value through profit or loss

Our fair value changes on investments measured at fair value through profit or loss significantly increased by 133.6% from RMB2.7 billion in 2016 to RMB6.4 billion in 2017, primarily due to significant fair value gains in several of our investee companies.

Share of losses of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 53.9% from RMB150.4 million in 2016 to RMB231.5 million in 2017 due to increased losses incurred by certain of these investments.

Other income

Our other income decreased by 17.0% from RMB540.5 million in 2016 to RMB448.7 million in 2017, primarily due to decreases in government grants and value-added tax and other tax refunds, partially offset by an increase in interest income from short-term investments.

Other (losses)/gains, net

Our other (losses)/gains, net changed from a net loss of RMB528.3 million in 2016 to a net gain of RMB72.0 million in 2017, primarily due to increased gains on disposal of long-term investments, and no impairment on investments accounted for using the equity method occurred, partially offset by an increase in foreign exchange losses resulting from the devaluation of the U.S. dollars in our current deposit accounts and our trade and other receivables.

Operating profit

As a result of the foregoing, we had operating profits of RMB3.8 billion and RMB12.2 billion in 2016 and 2017, respectively.

Finance (expense)/income, net

We had a net finance expense of RMB86.2 million in 2016 and a net finance income of RMB26.8 million in 2017, primarily due to higher interests from more bank deposits, partially offset by higher interest expenses. Our interest expenses increased primarily due to an increase in bank borrowings and an increase in average interest rates on these bank borrowings partially offset by a higher amount of interest expenses being capitalized.

Fair value changes of convertible redeemable preferred shares

Changes in the fair value of convertible redeemable preferred shares were recorded as "fair value changes of convertible redeemable preferred shares." Fair value changes of convertible redeemable preferred shares increased from a loss of RMB2.5 billion in 2016 to a loss of RMB54.1 billion in 2017, resulting from changes in the valuation of our Company. See Note 35 to the Accountant's Report included in Appendix I to this prospectus for details regarding the change in fair value of convertible redeemable preferred shares.

(Loss)/profit before income tax

As a result of the foregoing, we had a loss before income tax of RMB41.8 billion in 2017, compared with a profit before income tax of RMB1.2 billion in 2016.

Income tax expenses

Our income tax expenses increased from RMB683.9 million in 2016 to RMB2.1 billion in 2017, primarily due to our significantly higher operating profits in 2017.

(Loss)/profit for the year

As a result of the foregoing, we had a loss of RMB43.9 billion in 2017, compared with a profit of RMB491.6 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Revenues

Our total revenues increased by 2.4% from RMB66.8 billion in 2015 to RMB68.4 billion in 2016. Globally, our revenues in mainland China decreased by 5.5% from RMB62.8 billion in 2015 to RMB59.3 billion in 2016, and our overseas revenues increased by 125.7% from RMB4.0 billion in 2015 to RMB9.1 billion in 2016.

Smartphones

Our revenues from the smartphones segment decreased by 9.2% from RMB53.7 billion in 2015 to RMB48.8 billion in 2016, primarily due to a decrease in the number of smartphones sold, partially offset by the increase in the average selling price of our smartphones. We sold approximately 55.4 million units of smartphones in 2016, compared to approximately 66.5 million units sold in 2015. The average selling price of our smartphones was RMB879.9 per unit in 2016, compared with RMB807.2 per unit in 2015.

IoT and lifestyle products

Our revenues from the IoT and lifestyle products segment increased by 42.9% from RMB8.7 billion in 2015 to RMB12.4 billion in 2016, primarily due to the significant expansion in our

IoT and lifestyle products portfolio and an increase in the popularity of such products among consumers. Revenues from sales of our key IoT products, including smart TVs and laptops, increased by 29.1% from RMB2,612.0 million in 2015 to RMB3,372.2 million in 2016.

Internet services

Our revenues from internet services segment increased significantly by 101.8% from RMB3.2 billion in 2015 to RMB6.5 billion in 2016, primarily due to the growth of our advertising and internet value-added services revenues driven by an increase in our user base and deepening of user engagement. MAUs of our MIUI operating system increased by 20.1% from 112.2 million in December 2015 to 134.8 million in December 2016. Average internet services revenues per user, calculated as the ratio of internet services revenues for a year divided by the MAUs in December for such year, increased from RMB28.9 in 2015 to RMB48.5 in 2016.

Others

Our revenues from others segment decreased by 38.5% from RMB1.2 billion in 2015 to RMB0.7 billion in 2016, primarily due to the decrease of revenue-sharing from cellular network carriers in mainland China for the cellular service plans purchased by users of our smartphones.

Cost of sales

Our cost of sales decreased by 4.6% from RMB64.1 billion in 2015 to RMB61.2 billion in 2016.

Smartphones

Cost of sales in the smartphones segment decreased by 12.6% from RMB53.9 billion in 2015 to RMB47.1 billion in 2016, primarily due to a decrease in the number of smartphones sold. The cost of inventories sold of smartphones segment decreased by 12.5% from RMB50.4 billion in 2015 to RMB44.1 billion in 2016. Royalty fees paid to third-party intellectual property holders increased by 18.8% from RMB1.6 billion in 2015 to RMB1.9 billion in 2016. Warranty expenses decreased by 18.2% from RMB1.1 billion in 2015 to RMB0.9 billion in 2016, and provision for impairment of inventories decreased by 73.5% from RMB764.8 million in 2015 to RMB203.0 million in 2016.

IoT and lifestyle products

Cost of sales from the IoT and lifestyle products segment increased by 31.7% from RMB8.7 billion in 2015 to RMB11.4 billion in 2016, primarily due to the increase in our IoT and lifestyle product revenues.

Internet services

Cost of sales in the internet services segment significantly increased by 100.7% from RMB1.1 billion in 2015 to RMB2.3 billion in 2016, primarily due to increased amount of revenues shared with game developers as well as our increased infrastructure service spending resulting from higher user traffic and engagement. Revenues shared with game developers and video providers increased by 45.3% from RMB737.6 million in 2015 to RMB1.1 billion in 2016. Cloud service, bandwidth and server custody fees increased by 91.8% from RMB313.6 million in 2015 to RMB601.5 million in 2016.

Others

Cost of sales in our others segment decreased by 9.3% from RMB408.6 million in 2015 to RMB370.6 million in 2016, primarily due to the decrease of repairing fees.

Gross profit and gross margin

As a result of the foregoing, our gross profit significantly increased by 168.5% from RMB2.7 billion in 2015 to RMB7.2 billion in 2016. We had a gross loss margin of 0.3% from our smartphones segment in 2015, compared to a gross profit margin of 3.4% in 2016, primarily due to changes in product mix among which relatively more products in 2016 had higher gross profit margin. The gross profit margin from our IoT and lifestyle products segment increased significantly from 0.4% in 2015 to 8.2% in 2016, primarily due to the introduction of new and enhanced models, our expanded product category offerings, as well as the rapid growth of our sales volume, resulting in significant economies of scale. The gross profit margin from our internet services segment increased from 64.2% in 2015 to 64.4% in 2016. In 2016, we also generated a significantly higher percentage of our total revenues from our IoT and lifestyle products segment and internet services segment, which have higher gross margins than our smartphones segment. Our gross margin increased from 4.0% in 2015 to 10.6% in 2016.

Selling and marketing expenses

Our selling and marketing expenses increased by 58.0% from RMB1.9 billion in 2015 to RMB3.0 billion in 2016, primarily due to a significant increase in our promotion and advertising efforts to promote our products, services and brand, which are complementary to our word-of-mouth marketing approach through the sales of our products. Promotion and advertising expenses increased significantly from RMB152.9 million in 2015 to RMB963.4 million in 2016, primarily due to more promotion and advertising activities we conducted related to the launch of our new products and the enhancement of our overall brand recognition.

Administrative expenses

Our administrative expenses increased by 21.0% from RMB0.8 billion in 2015 to RMB0.9 billion in 2016, primarily due to an increase in salaries and benefits (including employee benefit expenses and share-based compensation) relating to administrative personnel to support our growing business operations.

Research and development expenses

As we dedicated more resources towards our people, technology and infrastructure, our research and development expenses increased by 39.2% from RMB1.5 billion in 2015 to RMB2.1 billion in 2016, primarily due to an increase in the total compensation relating to research and development personnel as a result of the increased headcount as well as the increase in research and development expenditures. Compensation relating to research and development personnel consisting of salaries and benefits (including employee benefit expenses and share-based compensation) increased primarily due to increased headcount. Our research and development personnel headcount increased by 50.1% from 2,292 as of December 31, 2015 to 3,441 as of December 31, 2016.

Fair value changes on investments measured at fair value through profit or loss

Our fair value changes on investments measured at fair value through profit or loss remained relatively stable at RMB2.8 billion in 2015 and RMB2.7 billion in 2016.

Share of losses of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 62.2% from RMB92.8 million in 2015 to RMB150.4 million in 2016 due to increased losses incurred by certain investments accounted for using the equity method.

Other income

Our other income increased by 3.5% from RMB522.4 million in 2015 to RMB540.5 million in 2016, primarily due to the new governments' grants, higher dividend income and higher value-added tax and other tax refund, partially offset by a decrease in investment income from short-term investments.

Other (losses)/gains, net

Our other losses, net increased by 39.2% from RMB379.4 million in 2015 to RMB528.3 million in 2016, primarily due to a decrease in gains on disposal of long-term investments, partially offset by a decrease in foreign exchanges losses resulting from our increased U.S. dollar asset holdings.

Operating profit

As a result of the foregoing, we had operating profits of RMB1.4 billion and RMB3.8 billion in 2015 and 2016, respectively.

Finance (expense)/income, net

As a result of the foregoing, we had finance expenses of RMB85.9 million and RMB86.2 million in 2015 and 2016, respectively.

Fair value changes of convertible redeemable preferred shares

Fair value changes of convertible redeemable preferred shares was a loss of RMB8.8 billion in 2015, compared to a loss of RMB2.5 billion in 2016, resulting from changes in the valuation of our Company. See Note 35 to the Accountant's Report included in Appendix I to this prospectus for details regarding the change in fair value of convertible redeemable preferred shares.

(Loss)/profit before income tax

As a result of the foregoing, we had a profit before income tax of RMB1.2 billion in 2016, compared with a loss before income tax of RMB7.5 billion in 2015.

Income tax expenses

Our income tax expenses increased from RMB154.5 million in 2015 to RMB683.9 million in 2016, primarily due to the fact that profit for entities subject to income tax increase.

(Loss)/profit for the year

As a result of the foregoing, we had a profit of RMB491.6 million in 2016, compared with a loss of RMB7.6 billion in 2015.

DISCUSSION OF CERTAIN KEY CONSOLIDATED BALANCE SHEET ITEMS

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which have been extracted from our audited consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Total non-current assets	14,184,010	20,129,283	28,731,300	31,064,904
Total current assets	24,952,527	30,636,318	61,138,461	61,028,696
Total assets	39,136,537	50,765,601	89,869,761	92,093,600
Total non-current liabilities	109,310,565	116,760,214	169,947,781	174,795,022
Total current liabilities	16,464,280	26,063,262	47,132,671	45,289,639
Total liabilities	125,774,845	142,823,476	217,080,452	220,084,661
Net liabilities	(86,638,308)	(92,057,875)	(127,210,691)	(127,991,061)
Share capital	150	150	150	150
Reserves	(86,714,628)	(92,191,820)	(127,272,511)	(127,992,149)
Non-controlling interests	76,170	133,795	61,670	938
Total equity	(86,638,308)	(92,057,875)	(127,210,691)	(127,991,061)
Total equity and liabilities	39,136,537	50,765,601	89,869,761	92,093,600

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of April 30,
	2015	2016	2017	2018	2018
	(in thousands of RMB)				(unaudited)
Current assets					
Inventories	8,643,183	8,378,342	16,342,928	15,136,731	15,793,328
Trade receivables	1,470,155	2,089,518	5,469,507	6,045,241	7,901,897
Loan receivables	100,980	1,598,063	8,144,493	8,185,244	8,400,560
Prepayments and other receivables	3,118,768	4,748,418	11,393,910	12,090,162	12,162,922
Short-term investments measured at amortized cost	1,629,000	80,000	800,000	1,000,000	700,000
Short-term investments measured at fair value through profit or loss	789,943	3,437,537	4,488,076	2,644,754	5,276,299
Short-term bank deposits	739,360	440,156	225,146	221,398	28,180
Restricted cash	67,060	633,964	2,711,119	1,678,153	1,359,945
Cash and cash equivalents	8,394,078	9,230,320	11,563,282	14,027,013	16,882,483
Total current assets	24,952,527	30,636,318	61,138,461	61,028,696	68,505,614
Current liabilities					
Trade payables	14,225,540	17,577,702	34,003,331	29,491,076	33,983,839
Other payables and accruals	1,275,068	1,876,267	4,223,979	3,201,447	4,631,096
Advance from customers	530,675	1,836,174	3,390,650	4,382,266	3,792,368
Borrowings	—	3,768,500	3,550,801	5,806,972	6,261,874
Income tax liabilities	101,345	257,558	421,113	525,967	318,933
Warranty provision	331,652	747,061	1,542,797	1,881,911	1,881,822
Total current liabilities	16,464,280	26,063,262	47,132,671	45,289,639	50,869,932
Net current assets	8,488,247	4,573,056	14,005,790	15,739,057	17,635,682

Inventories

Our inventories consist of raw materials, finished goods, work in progress and spare parts and others. The following table sets forth a breakdown of our inventories as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Raw materials	1,052,131	2,958,699	5,117,285	5,772,873
Work in progress	1,735,739	988,561	1,352,886	1,628,394
Finished goods	5,622,542	3,326,181	8,461,798	6,126,809
Spare parts	772,070	906,155	1,569,040	1,361,844
Others(1)	261,929	481,905	510,061	746,552
	9,444,411	8,661,501	17,011,070	15,636,472
Less: Provision for impairment(2)	(801,228)	(283,159)	(668,142)	(499,741)
Total	8,643,183	8,378,342	16,342,928	15,136,731

Notes:

(1) Others primarily comprise in-transit inventories.

(2) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expenses of inventory amounted to RMB777.0 million, RMB280.0 million, RMB652.6 million and RMB321.8 million for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, respectively.

Our inventories decreased by 3.1% from RMB8.6 billion as of December 31, 2015 to RMB8.4 billion as of December 31, 2016, primarily due to a decrease in finished goods of RMB2.3 billion and a decrease in work in progress of RMB0.7 billion, partially offset by an increase in raw materials of RMB1.9 billion. Our finished goods decreased primarily due to improved sales as we launched new models of smartphones such as Mi MIX and Mi Note 2 in the second half of 2016. Our raw materials increased primarily due to increased procurement for production in anticipation of new product launches.

Our inventories significantly increased by 95.1% from RMB8.4 billion as of December 31, 2016 to RMB16.3 billion as of December 31, 2017, primarily due to an increase in raw materials of RMB2.2 billion and an increase in finished goods of RMB5.1 billion. Our raw materials increased primarily as we purchased an increased amount of raw materials for the production of Redmi Note 5 and Mi MIX 2S, the two new models of our smartphones launched in the first quarter of 2018. Our finished goods increased primarily due to the introduction of smartphone models such as Mi MIX 2 and Mi 6 in 2017 and the anticipated demand of their popularity.

Our inventories decreased by 7.4% from RMB16.3 billion as of December 31, 2017 to RMB15.1 billion as of March 31, 2018, primarily due to a decrease in finished goods of RMB2.3 billion. Our finished goods decreased primarily due to the popularity and higher sales volume of certain smartphone models in the first quarter of 2018.

The following table sets forth the number of our inventory turnover days for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2015	2016	2017	2018
Inventory turnover days[(1)]	49	51	45	47

Notes:

(1) Inventory turnover days for a period equals the average of the opening and closing inventory balances of the indicated period divided by the cost of sales for such period and multiplied by the number of days in such period, being 365 days for a full-year period or 90 days for a three-month period.

Our inventory turnover days increased from 49 days for the year ended December 31, 2015 to 51 days for the year ended December 31, 2016. Our inventory turnover days decreased from 51 days for the year ended December 31, 2016 to 45 days for the year ended December 31, 2017 primarily due to faster sales cycle of our products. Our inventory turnover days increased from 45 days for the year ended December 31, 2017 to 47 days for the three months ended March 31, 2018 primarily due to seasonality caused by the Chinese New Year holidays.

RMB9,959.5 million, or 65.8%, of our inventories as of March 31, 2018 had been sold as of April 30, 2018.

Trade Receivables

Trade receivables represent outstanding amount due from our customers or agents for the purchase of services we performed or inventories we sold in the ordinary course of business. Trade receivables are classified as current assets if they are expected to be collected in one year or less (or more than one year but within the normal operating cycle of the applicable business). Otherwise, they are presented as non-current assets. Trade receivables from third parties have credit periods within 180 days.

The following table sets forth our trade receivables as of the date indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Third parties	1,487,537	1,981,250	5,337,711	5,927,531
Related parties	13,177	148,316	188,616	172,048
	1,500,714	2,129,566	5,526,327	6,099,579
Less: allowance for impairment	(30,559)	(40,048)	(56,820)	(54,338)
Total	1,470,155	2,089,518	5,469,507	6,045,241

Our trade receivables increased by 42.1% from RMB1.5 billion as of December 31, 2015 to RMB2.1 billion as of December 31, 2016, primarily due to significant growth in our internet services and our increased sales overseas, especially in certain overseas markets with longer receivable days.

Our trade receivables significantly increased by 161.8% from RMB2.1 billion as of December 31, 2016 to RMB5.5 billion as of December 31, 2017, primarily due to the overall growth of our product sales, an increase in trade receivables associated with distributors in overseas markets and the development of our internet services.

Our trade receivables increased by 10.5% from RMB5.5 billion as of December 31, 2017 to RMB6.0 billion as of March 31, 2018, primarily due to our increased sales overseas and growth in internet services revenues.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Trade receivables				
Up to 3 months	1,319,371	1,943,643	5,099,590	5,768,887
3 to 6 months	115,680	115,885	302,354	185,689
6 months to 1 year	62,083	38,097	39,028	89,012
1 to 2 years	3,580	30,840	53,613	23,399
Over 2 years	—	1,101	31,742	32,592
Total	1,500,714	2,129,566	5,526,327	6,099,579

The following table sets forth the number of turnover days for our trade receivables for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2015	2016	2017	2018
Trade receivables turnover days[(1)]	7	9	12	15

Notes:

(1) Trade receivables turnover days for a period equals the average of the opening and closing trade receivables divided by revenue for the same period and multiplied by 365 days for a full-year period or 90 days for a three-month period.

Our trade receivables turnover days for the years ended December 31, 2015, 2016 and 2017 were 7 days, 9 days and 12 days, respectively. Our trade receivables turnover days increased from 12 days for the year ended December 31, 2017 to 15 days for the three months ended March 31, 2018 primarily due to the increased sales overseas and the growth in internet services revenues.

RMB4.3 billion, or 71.2%, of our trade receivables as of March 31, 2018 had been settled as of April 30, 2018.

Loan Receivables

Our loan receivables primarily comprise loans from our subsidiaries that engage in internet finance business to its customers.

Our loan receivables increased significantly from RMB101.0 million as of December 31, 2015 to RMB1.6 billion as of December 31, 2016, and further to RMB8.1 billion as of December 31, 2017, primarily due to a growth of our internet finance business. Our loan receivables remained relatively stable at RMB8.1 billion as of December 31, 2017 and at RMB8.2 billion as of March 31, 2018.

RMB2,124.2 million, or 26.0%, of our loan receivables as of March 31, 2018 had been repaid as of April 30, 2018.

Prepayments and Other Receivables

Prepayments and other receivables primarily comprise receivables from outsourcing partners for outsourcing of raw materials, recoverable value-added tax and other taxes, receivables from import and export agents, prepayments to suppliers, loans to related parties, prepaid fees for establishing loan facilities and other prepaid expenses, receivables from market development fund, receivables from disposal of investments, deposits to suppliers, receivables from employees related to the Employee Fund and interest receivables. Market developments funds are payments to be received from suppliers for marketing activities supporting the suppliers' branding.

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Receivables from outsourcing partners for supply of raw materials	347,639	1,929,600	5,663,419	7,013,423
Recoverable value-added tax and other taxes	1,657,857	1,173,704	3,387,401	3,022,342
Receivables from import and export agents	—	132,493	644,766	133,118
Prepayments to suppliers	350,516	114,770	304,286	294,088
Loans to related parties	76,463	74,329	62,143	58,267
Prepaid fees for establishing loan facilities and other prepaid expenses	143,731	183,248	195,592	294,571
Receivables from market development fund	—	105,654	199,751	104,435
Receivables from disposal of investments	203,831	164,281	108,056	84,199
Deposits to suppliers	28,795	563,688	96,913	312,441
Receivables from employees related to the Employee Fund	156,200	142,200	114,850	114,250
Interest receivables	21,826	21,401	104,521	82,343
Others	131,910	143,050	512,212	576,685
Total	3,118,768	4,748,418	11,393,910	12,090,162

The loans to related parties will continue after the Listing and do not involve our Controlling Shareholders or connected persons. Such loans were conducted on arm's length basis.

For our hardware product sales in India, we deliver raw materials to our outsourcing partners in India, who then assemble such raw materials into finished goods that are sold to our local operating subsidiary. The increase in receivables from outsourcing partners for supply of raw materials during the Track Record Period is generally a result of the rapid growth of our product sales in India.

Short-term Investments Measured at Amortized Cost

Our short-term investments measured at amortized cost comprise bank wealth management products issued by major and reputable commercial banks with guaranteed returns. As of December 31, 2015, 2016 and 2017 and March 31, 2018, none of these investments are past due.

Our short-term investments measured at amortized cost decreased from RMB1.6 billion as of December 31, 2015 to RMB80.0 million as of December 31, 2016, primarily due to the reduction of the purchase of wealth management products with low guaranteed returns in order to seek for better returns in products with floating rate. As a result, the purchase of short-term investments measured at amortized cost is only RMB1.2 billion compared to a RMB2.7 billion in maturity in the year of 2016. Our short-term investments measured at amortized cost significantly increased from RMB80.0 million as of December 31, 2016 to RMB0.8 billion as of December 31, 2017, primarily due to higher amount of cash generated from operating activities and increased purchase of wealth management products from banks with guaranteed returns. Our short-term investments measured at amortized cost increased by 25.0% from RMB0.8 billion as of December 31, 2017 to RMB1.0 billion as of March 31, 2018.

Short-term Investments Measured at Fair Value through Profit or Loss

Our short-term investments measured at fair value through profit or loss comprise wealth management products issued by major and reputable commercial banks without guaranteed returns. As of December 31, 2015, 2016 and 2017 and March 31, 2018, none of these investments are past due.

Our short-term investments measured at fair value through profit or loss increased from RMB0.8 billion as of December 31, 2015 to RMB3.4 billion as of December 31, 2016, and further by 30.6% to RMB4.5 billion as of December 31, 2017, primarily due to increased purchase of wealth management products from banks. Our short-term investments measured at fair value through profit or loss decreased by 41.1% from RMB4.5 billion as of December 31, 2017 to RMB2.6 billion as of March 31, 2018, primarily because the amount of our wealth management products that reached maturity exceeded the amount of newly purchased wealth management products during this period.

Long-term Investments Measured at Fair Value through Profit or Loss

The following table sets forth our long-term investments measured at fair value through profit or loss as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Long-term investments measured at fair value through profit or loss				
Equity investments				
Listed	3,026,959	3,302,689	5,764,532	5,761,366
Unlisted	851,682	1,201,237	1,683,719	1,782,653
Preferred shares investments	4,512,153	7,845,272	11,408,710	12,375,184
Total	8,390,794	12,349,198	18,856,961	19,919,203

The investees of our preferred shares investments are principally engaged in the business related to IoT and lifestyle products, media and entertainment, mobile internet, internet finance and artificial intelligence. These investments are typically convertible redeemable preferred shares or ordinary shares with preferential rights. We have the right to require and demand the investees to redeem all of the shares held by us at guaranteed predetermined fixed amount at the redemption events, which are out of the control of the issuers. Hence, these investments are accounted for as debt instrument investments and are measured at financial assets at fair value through profit or loss.

Our long-term investments measured at fair value through profit or loss increased by 47.2% from RMB8.4 billion as of December 31, 2015 to RMB12.3 billion as of December 31, 2016, and further by 52.7% to RMB18.9 billion as of December 31, 2017, reflecting the overall increase in our investment activities and the valuation of our investee companies. Our long-term investments measured at fair value through profit or loss increased by 5.6% from RMB18.9 billion as of December 31, 2017 to RMB19.9 billion as of March 31, 2018.

Our long-term investments in publicly traded securities remained relatively stable from RMB3,027.0 million as of December 31, 2015 to RMB3,302.7 million as of December 31, 2016 and increased by 74.5% to RMB5,764.6 million as of December 31, 2017, reflecting the overall increase of the market value of our public investee companies. Our long-term investments in publicly traded securities remained relatively stable at RMB5.8 billion as of December 31, 2017 and at RMB5.8 billion as of March 31, 2018.

Land Use Rights and Prepayment for Land Use Rights

Land use rights represent prepayments for the land use rights in mainland China, which are stated at cost initially and expensed on a straight-line basis over the periods of the leases. These land use rights are acquired primarily in order to construct our office complex. The authorized periods of the land use rights were 40 to 50 years.

Our prepayment to land use rights was RMB2.6 billion, nil, nil and nil as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively. Our land use rights were nil, RMB3.5 billion, RMB3.4 billion and RMB3.4 billion as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively. In 2015, we made a payment for the acquisition of certain land use rights for new office buildings for which we obtained the related certificates in 2016. Such payment was recorded in 2015 as prepayment and then recognized as land use rights in 2016. We paid an aggregate of RMB3.6 billion for the acquisition of land use rights for new office buildings, pursuant to the agreements entered into with the local governmental authorities or local governments in 2015 and 2016.

Intangible Assets

The following table sets forth a breakdown of our intangible assets as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Trademarks, patents and domain names	271,409	474,814	723,205	730,998
Licenses	637	371,579	1,279,951	1,196,762
Goodwill	248,167	248,167	248,167	282,090
Others	33,546	25,573	23,029	36,554
Total	553,759	1,120,133	2,274,352	2,246,404

Our intangible assets increased significantly by 102.3% from RMB553.8 million as of December 31, 2015 to RMB1.1 billion as of December 31, 2016, primarily due to an increase in license of RMB371.2 million as a result of our acquisition of a third-party payment license holder and the increase in trademarks, patents and domain names of RMB203.4 million, mainly as a result of our acquisition of certain patents.

Our intangible assets increased significantly by 103.0% from RMB1.1 billion as of December 31, 2016 to RMB2.3 billion as of December 31, 2017, primarily due to an increase in licensed rights to use intellectual property.

Our intangible assets remained relatively stable from RMB2.3 billion as of December 31, 2017 to RMB2.2 billion as of March 31, 2018.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Trade payables primarily include payables for inventories and royalty fee.

Our trade payables increased by 23.6% from RMB14.2 billion as of December 31, 2015 to RMB17.6 billion as of December 31, 2016, and further increased by 93.4% to RMB34.0 billion as of December 31, 2017, primarily due to an increase in payables for inventories and royalty fee as a result of our increased inventory balances in anticipation of strong demand in light of the increasing popularity of certain models of our smartphones. Our trade payables decreased by 13.3% from RMB34.0 billion as of December 31, 2017 to RMB29.5 billion as of March 31, 2018, primarily due to seasonality factors.

The following table sets forth an aging analysis of our trade payables, based on the invoice date, as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Up to 3 months	12,586,016	15,590,971	32,859,302	28,577,140
3 to 6 months	469,059	690,100	936,690	807,140
6 months to 1 year	786,894	606,043	180,060	89,502
1 to 2 years	383,292	687,632	22,525	16,729
Over 2 years	279	2,956	4,754	565
Total	14,225,540	17,577,702	34,003,331	29,491,076

The following table sets forth the number of turnover days for our trade payables for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2015	2016	2017	2018
Trade payables turnover days(1)	76	95	95	95

Notes:

(1) Trade payables turnover days for a period equals the average of the opening and closing trade payables balance divided by cost of sales for the same period and multiplied by 365 days for a full-year period or the period generating the revenue.

Our trade payables turnover days increased from 76 for the year ended December 31, 2015 to 95 for the year ended December 31, 2016 primarily due to the increased use of post-payment in the settlement with suppliers instead of prepayment.

Our trade payables turnover days remained unchanged from the year ended December 31, 2016 to the year ended December 31, 2017 primarily due to the consistent practice of our supply-chain management.

Our trade payables turnover days also remained unchanged from the year ended December 31, 2017 to the three months ended March 31, 2018.

RMB22.4 billion, or 76.0%, of our trade payables as of March 31, 2018 had been settled as of April 30, 2018.

Other Payables and Accruals

The following table sets forth our other payables and accruals as of the periods indicated:

	For the year ended December 31,			For the three months ended March 31,
	2015	2016	2017	2018
		(in thousands of RMB)		
Amounts collected for third parties	6,304	115,740	1,056,228	775,384
Payroll and welfare payables	264,387	403,872	694,887	410,141
Deposits payable	160,225	259,206	678,472	600,417
Employee fund	381,360	409,771	469,930	480,520
Accrual expenses	111,064	159,284	373,034	256,413
Payables for construction cost	—	142,520	241,881	247,252
Loans from related parties	31,184	50,873	51,336	42,245
Payables for investments	120,216	106,737	151,712	99,924
Other taxes payable	29,838	41,870	59,431	62,710
Others	170,490	186,394	447,068	226,441
Total	1,275,068	1,876,267	4,223,979	3,201,447

The loans from related parties have been settled by the end of April 2018. Such loans were conducted on arm's length basis.

Our other payables and accruals increased from RMB1.3 billion as of December 31, 2015 to RMB1.9 billion as of December 31, 2016, primarily due to an increase in payables for construction cost of RMB142.5 million, an increase in payroll and welfare payables of RMB139.5 million, an increase in deposits payable of RMB99.0 million and an increase in amounts collected for third party vendors on our online sales channels of RMB109.4 million.

Our other payables and accruals increased from RMB1.9 billion as of December 31, 2016 to RMB4.2 billion as of December 31, 2017, primarily due to an increase in amounts collected for third party vendors on our online sales channels of RMB0.9 billion, an increase in deposits payable of RMB419.3 million and an increase in payroll and welfare payables of RMB291.0 million.

Our other payables and accruals decreased from RMB4.2 billion as of December 31, 2017 to RMB3.2 billion as of March 31, 2018, primarily due to decrease in amounts collected on behalf of third party distributors, due to an increase in direct distribution in certain markets, and decrease in payroll payables as we paid, in the first quarter of 2018, annual bonuses for 2017, consistent with our historical practice.

RMB1.3 billion, or 41.3%, of our other payables and accruals as of March 31, 2018 had been settled as of April 30, 2018.

Advance from Customers

Advance from customers represents cash collected from our customers before their acceptance of products or our performance of services.

Our advance from customers increased from RMB530.7 million as of December 31, 2015 to RMB1.8 billion as of December 31, 2016 and further increased to RMB3.4 billion as of December 31, 2017, primarily due to the overall growth in our business operations and the increasing popularity of our products and services. Our advance from customers increased from RMB3.4 billion as of December 31, 2017 to RMB4.4 billion as of March 31, 2018, primarily due to the increases in hardware sales and internet services revenues.

RMB3.9 billion, or 87.9%, of our advance from customers as of March 31, 2018 had been settled as of April 30, 2018.

KEY RATIOS/METRICS

In addition to the measures presented in our consolidated financial statements, we use the following key ratios/metrics to evaluate our business, measure our performance, develop financial forecasts, and make strategic decisions.

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

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
Total revenue growth (%)	N/A	2.4	67.5	N/A	85.7
Revenue growth for smartphones segment (%)	N/A	(9.2)	65.2	N/A	90.6
Number of smartphones sold (thousands)	66,546	55,419	91,410	13,085	28,413
Smartphone average selling price (RMB)	807.2	879.9	881.3	931.9	817.9
Revenue growth for IoT and lifestyle products segment (%)	N/A	42.9	88.9	N/A	85.0
Revenue of IoT and lifestyle products segment per smartphone sold (RMB)	130.6	224.0	256.5	318.0	270.9
Revenue growth for internet services segment (%)	N/A	101.8	51.4	N/A	59.2
End-of-the-period MIUI MAUs (millions)	112.2	134.8	170.8	138.3	190.0
Average internet services revenue per user[(1)] (RMB)	28.9	48.5	57.9	14.7	17.0
Gross margin for hardware[(2)] (%)	(0.2)	4.4	8.7	7.3	7.0
Gross margin for internet services segment (%)	64.2	64.4	60.2	60.4	62.3
Gross margin for advertising services (%)	91.1	85.6	81.8	83.7	82.3
Gross margin for internet valued-added services (%)	29.6	34.2	32.0	37.3	34.7
Non-IFRS adjusted (loss)/profit[(3)] (RMB in thousands)	(303,887)	1,895,657	5,361,876	660,530	1,699,301
Non-IFRS net margin[(4)] (%)	(0.5)	2.8	4.7	3.6	4.9
Cash conversion cycle[(5)] (days)	(20)	(35)	(38)	(39)	(33)

Notes:

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

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

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

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

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

See "—Period-to-Period Comparison of Results of Operations—Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017," "—Period-to-Period Comparison of Results of Operations—Year Ended December 31, 2017 Compared to Year Ended December 31, 2016" and "—Period-to-Period Comparison of Results of Operations—Year Ended December 31, 2016 Compared to Year Ended December 31, 2015" above for a discussion of the factors affecting our revenue growth, gross margin, during the respective periods. See "—Discussion of Certain Key Consolidated Balance Sheet Items" above for a discussion of the inventory turnover days.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we had historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB8.4 billion, RMB9.2 billion, RMB11.6 billion and RMB14.0 billion as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively.

Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, other funds raised from the capital markets from time to time and the net proceeds received from the Global Offering. We currently do not have any plans for material additional external financing, except as described in this document.

The following table sets forth our cash flows for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)				
				(unaudited)	
Net cash (used in)/generated from operating activities	(2,601,311)	4,531,264	(995,669)	(1,246,696)	(1,277,682)
Net cash generated from/(used in) investing activities	873,395	(3,735,267)	(2,677,714)	2,659,857	460,647
Net cash generated from/(used in) financing activities	568,383	(72,141)	6,214,930	1,337,144	3,337,476
Net (decrease)/increase in cash and cash equivalents	(1,159,533)	723,856	2,541,547	2,750,305	2,520,441
Cash and cash equivalents at beginning of the period	9,264,955	8,394,078	9,230,320	9,230,320	11,563,282
Effects of exchange rate changes on cash and cash equivalents	288,656	112,386	(208,585)	(68,054)	(56,710)
Cash and cash equivalents at end of the period	8,394,078	9,230,320	11,563,282	11,912,571	14,027,013

Net Cash (Used in)/Generated from Operations

Net cash (used in)/generated from operations represents cash (used in)/generated from operations minus income tax paid. Cash (used in)/generated from operations primarily comprise our loss or profit for the period adjusted by non-cash items and changes in working capital.

For the three months ended March 31, 2018, net cash used in operations amounted to RMB1.3 billion, representing cash used in operations of RMB1.0 billion plus income tax paid of RMB0.3 billion. Cash used in operations was primarily attributable to our loss before income tax of RMB6.7 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB10.1 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB1.8 billion, and (ii) changes in working capital, which primarily comprised a seasonal decrease in trade payables of RMB4.3 billion and a decrease in other payables and accruals of RMB1.0 billion.

For 2017, net cash used in operations amounted to RMB1.0 billion, representing cash generated from operations of RMB0.5 billion minus income tax paid of RMB1.5 billion. Cash used in operations was primarily due to our loss before income tax of RMB41.8 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB54.1 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB6.4 billion, and (ii) changes in working capital, which primarily comprised an increase in inventories of RMB8.6 billion, an increase in loan and interest receivables of RMB6.9 billion related to our internet finance business, an increase in prepayments and other receivables of RMB6.6 billion and an increase in trade payables of RMB15.5 billion. The operating cash outflow in 2017 was primarily due to an increase in loan and interest receivables, as a result of the nature of our internet finance business, which did not constitute our core business in terms of revenue contribution. Internet finance business, by nature, has extensive capital requirements (including regulatory capital requirements where applicable), which resulted in a significant balance sheet amount of financial assets including loan receivables. We recorded loans deriving from such business at the principal amount less allowance for doubtful accounts on our consolidated balance sheet. We have securitized certain loan receivables, completed several rounds of issuance of its asset-backed securities ("ABS") during the Track Record Period. During the year ended December 31, 2017, the total issuance amount of ABS was RMB4.8 billion, of which RMB3.9 billion represented senior tranche while RMB0.9 billion represented subordinate tranches which were fully acquired by the Group and RMB0.2 billion was repaid by us. We have also securitized certain loan receivables and raised several rounds of funds through third party trusts during the Track Record Period. For more information on management of such loan receivables, please refer to "Financial Information—Credit Risk." For 2017, excluding the increase in loan and interest receivables mainly resulted from internet finance business, we would record a positive operating cash flow of RMB5.9 billion.

For 2016, net cash generated from operations amounted to RMB4.5 billion, representing cash generated from operations of RMB4.7 billion minus income tax paid of RMB0.2 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB1.2 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB2.5 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB2.7 billion, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB3.4 billion.

For 2015, net cash used in operations amounted to RMB2.6 billion, representing cash used in operations of RMB2.3 billion plus income tax paid of RMB0.3 billion. Cash used in operations was primarily due to our loss of RMB7.5 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising fair value changes of convertible redeemable preferred shares of RMB8.8 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB2.8 billion, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB1.6 billion, and a decrease in other payables and accruals of RMB2.4 billion. The operating cash outflow in 2015 was primarily due to our adjusted net loss for the period. We expanded internationally at scale starting from 2015 and the early stage of our overall international operations and our investments to build a presence in overseas markets in 2015, contributed to our gross loss in our smartphones segment in 2015.

Net Cash Generated from/(Used in) Investing Activities

For the three months ended March 31, 2018, our net cash generated from investing activities was RMB0.5 billion, which was mainly attributable to the net cash generated from purchase and settlement of wealth management products of RMB1.7 billion, partially offset by placement of long-term investments (including long-term investments measured at fair value through profit or loss and investments accounted for using the equity method) of RMB0.8 billion and capital expenditures of RMB0.7 billion.

For 2017, our net cash used in investing activities was RMB2.7 billion, which was mainly attributable to the net cash used in purchase and settlement of wealth management products (including short-term investments measured at fair value through profit or loss and short-term investments measured at amortized cost) of RMB1.7 billion, and capital expenditures of RMB1.2 billion.

For 2016, our net cash used in investing activities was RMB3.7 billion, which was mainly attributable to the net cash used in purchase and settlement of wealth management products of RMB1.1 billion, capital expenditures of RMB1.8 billion, and placement of long-term investments of RMB1.7 billion.

For 2015, our net cash generated from investing activities was RMB0.9 billion, which was mainly attributable to the net cash generated from purchase and settlement of wealth management products of RMB5.6 billion, partially offset by capital expenditures of RMB2.5 billion and placement of long-term investments of RMB3.5 billion.

Net Cash Generated from/(Used in) Financing Activities

For the three months ended March 31, 2018, our net cash generated from financing activities was RMB3.3 billion, which was mainly attributable to proceeds from borrowings of RMB3.9 billion, partially offset by repayment of borrowings of RMB0.5 billion.

For 2017, our net cash generated from financing activities was RMB6.2 billion, which was mainly attributable to proceeds from borrowings of RMB11.2 billion mainly used to finance our internet finance business, partially offset by repayment of borrowings of RMB4.5 billion.

For 2016, our net cash used in financing activities was RMB72.1 million, which was mainly attributable to placement of restricted cash of RMB624.3 million and interest paid of RMB137.8 million, partially offset by proceeds from borrowings of RMB740.0 million.

For 2015, our net cash generated from financing activities was RMB568.4 million, which was mainly attributable to proceeds from borrowings of RMB3.2 billion and proceeds from issuance of convertible redeemable preferred shares of RMB1.4 billion, partially offset by repayment of borrowings of RMB4.0 billion.

INDEBTEDNESS

Borrowings

As of December 31, 2015, 2016 and 2017, and March 31 and April 30, 2018, we had total borrowings of RMB3.2 billion, RMB4.2 billion, RMB10.8 billion, RMB14.1 billion and RMB13.8 billion, respectively.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost.

The following table sets forth our borrowings included in non-current liabilities and current liabilities as of the dates indicated:

	As of December 31,			As of March 31,	As of April 30,
	2015	2016	2017	2018	2018
	(in thousands of RMB)				(unaudited)
Included in non-current liabilities:					
Asset-backed securities	—	390,000	2,400,105	920,968	502,285
Fund raised through trusts	—	—	400,000	400,000	—
Secured borrowings	—	—	714,107	809,619	834,309
Unsecured borrowings	3,246,800	—	3,737,100	6,119,291	6,165,370
Included in current liabilities:					
Pledged borrowings	—	300,000	729,404	715,114	718,087
Asset-backed securities	—	—	1,491,147	2,587,998	2,446,270
Fund raised through trusts	—	—	1,170,250	2,343,860	2,627,517
Unsecured borrowings	—	3,468,500	160,000	160,000	470,000

We entered into a three-year bank loan agreement on November 1, 2014. We drew down US$0.5 billion in term loan on July 13, 2015. The borrowings were unsecured and principally used for our business operations.

In 2016, we had short-term borrowings from the Bank of Ningbo that amounted to RMB350.0 million to finance our internet finance business. As of December 31, 2016, RMB50.0 million had been repaid, and the remaining borrowings were collateralized by a pledge of bank deposits of US$90.0 million, which was recorded as "restricted cash" in the consolidated balance sheets.

We completed several rounds of issuance of our asset-backed securities ("**ABS**") during the Track Record Period to finance our internet finance business. In 2016, we issued RMB500.0 million ABS, of which RMB390.0 million represented senior tranche while RMB110.0 million represented subordinate tranches which were fully acquired by us.

During 2017, long-term borrowings of RMB714.1 million for our office building constructions were secured by construction in progress and land use rights amounted to approximately RMB3.6 billion.

We repaid the remaining borrowings from the Bank of Ningbo in 2017 and obtained new short-term borrowings that amounted to RMB350.0 million to finance our internet finance business.

We repaid the three-year term loan date November 1, 2014 on August 2, 2017 and entered into another three-year facility bank loan agreement on July 26, 2017. We drew down a term loan of US$0.5 billion and US$0.4 billion on August 2, 2017 and March 27, 2018, respectively.

In 2017, we also issued ABS amounting to RMB4.8 billion of which RMB3.9 billion represented senior tranche while RMB856.0 million represented subordinate tranches which were fully acquired by the Group and RMB166.4 million was repaid by the Group. We also raised several rounds of funds amounting to RMB1.2 billion through third party trusts. These financing activities were undertaken to finance our internet finance business.

During the three months ended March 31, 2018, additional long-term borrowings of RMB95.5 million for our office building constructions were secured by construction in progress and land use rights amounted to approximately RMB3.6 billion.

During the three months ended March 31, 2018, ABS amounting to RMB382.3 million was repaid and no additional ABS was issued.

As of the Latest Practicable Date, we had unutilized banking facilities of RMB9.6 billion.

As of December 31, 2015, 2016 and 2017 and March 31, 2017 and 2018, the annual interest rate of the interest-bearing liabilities ranges from 2.56% to 2.61%, 2.95% to 4.79%, 2.22% to 9.00%, 3.35% to 7.80% and 2.22% to 9.00%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with each of the lenders mentioned above. Our Directors confirm that we are not subject to other material covenants under any agreements with respect to any bank loans or other borrowings. Our Directors also confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position, our Directors are of the opinion that we are able to abide by these covenants amid current market conditions and that our capital raising abilities were not materially affected as of December 31, 2017.

Convertible Redeemable Preferred Shares

As of December 31, 2015, 2016 and 2017 and March 31, 2018, the convertible redeemable preferred shares had fair values of RMB105.9 billion, RMB115.8 billion, RMB161.5 billion and RMB165.3 billion, respectively. For further information regarding the convertible redeemable preferred shares, see Note 35 to the Accountant's Report in Appendix I to this prospectus. Since March 31, 2018 and up to April 30, 2018, we had not issued or repurchased any convertible redeemable preferred shares.

CONTINGENT LIABILITIES

As of December 31, 2015, 2016 and 2017, March 31, 2018 and April 30, 2018, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES AND LONG-TERM INVESTMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table sets forth our capital expenditures and placement for long-term investments for the periods indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2015	2016	2017	2017	2018
	(in thousands of RMB)				
				(unaudited)	
Capital expenditures	2,524,356	1,826,245	1,217,806	178,284	706,042
Placement for long-term investments[(1)]	2,891,017	809,882	813,175	96,497	600,242
Total	5,415,373	2,636,127	2,030,981	274,781	1,306,284

Notes:

(1) Placement for long-term investments during our Track Record Period represents equity investments and preferred share investments.

Our historical capital expenditures primarily were on property and equipment resulting from the construction of and improvements made to our office complex, as well as intangible assets. We funded our capital expenditure requirements and placement for long-term investments during the Track Record Period mainly from cash generated from our operating activities and bank borrowings. Our capital expenditures and placement for long-term investments amounted to RMB5.4 billion, RMB2.6 billion, RMB2.0 billion, RMB0.3 billion and RMB1.3 billion for 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, respectively.

We plan to fund our planned capital expenditures and long-term investments measured at fair value through profit or loss using cash flows generated from our operations and the net proceeds received from the Global Offering. See "Future Plans and Use of Proceeds" in this prospectus for more details. We may reallocate the fund to be utilized on capital expenditure and long-term investments measured at fair value through profit or loss based on our ongoing business needs.

See "Business—Risk Management and Internal Control—Investment Risk Management" in this prospectus for a discussion of our investment policy and investment risk management.

CONTRACTUAL OBLIGATIONS

Our commitments primarily comprise capital expenditure contracted for but not yet incurred during the periods, operating lease commitments and other commitments.

Capital Commitments

The table below sets forth our capital commitments as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Property and equipment	75,351	273,789	1,486,029	1,394,479
Intangible assets	239,866	159,280	112,888	103,942
Investments	349,027	305,281	198,788	153,880
Total	664,244	738,350	1,797,705	1,652,301

Operating Lease Commitments

We lease office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The table below sets forth our future aggregate minimum lease payments under non-cancellable operating leases:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	(in thousands of RMB)			
Not later than 1 year	72,409	273,145	258,230	303,662
Later than 1 year and not later than 5 years	93,747	411,999	280,613	357,689
Total	166,156	685,144	538,843	661,351

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, except for the financial guarantee contracts, we had not entered into any off-balance sheet arrangements.

MATERIAL RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, we entered into a number of transactions with related parties in relation to the sales and purchases of goods and services with our associates or associates of Lei Jun. In 2015, 2016, 2017 and the three months ended March 31, 2018, (i) sales of goods and services to related parties amounted to RMB83.3 million, RMB614.9 million, RMB765.9 million and RMB133.1 million, respectively; and (ii) purchases of goods and services from related parties amounted to RMB4.4 billion, RMB7.1 billion, RMB13.3 billion and RMB3.7 billion, respectively. As of December 31, 2015, 2016 and 2017 and March 31, 2018, (i) trade receivables from related parties amounted to RMB13.2 million, RMB148.3 million, RMB188.6 million and RMB172.0 million, respectively; (ii) trade payables to related parties amounted to RMB0.8 billion, RMB2.1 billion, RMB3.2 billion and RMB2.5 billion, respectively, (iii) other receivables from related parties amounted to RMB110.1 million, RMB145.4 million, RMB181.8 million and RMB225.3 million, respectively, (iv) other payables to related parties amounted to RMB18.7 million, RMB112.1 million, RMB424.6 million and RMB231.0 million, respectively, (v) prepayments to related parties amounted to RMB9.6 million, RMB40.6 million, RMB67.3 million and RMB86.2 million, respectively, (vi) loans to related parties amounted to RMB76.5 million, RMB74.3 million, RMB62.1 million and RMB58.3 million, respectively, and (vii) loans from related parties amounted to RMB31.2 million, RMB50.9 million, RMB51.3 million and RMB42.2 million, respectively. For more details about our related party transactions, see Note 39 to the Accountant's Report included in Appendix I to this prospectus.

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

FINANCIAL RISK DISCLOSURE

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management.

Market Risk

Foreign Exchange Risk

Our transactions are denominated and settled in our functional currency, U.S. dollars. Our subsidiaries primarily operate in mainland China and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to U.S. dollars. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners.

For our subsidiaries whose functional currency is the RMB, if RMB had strengthened or weakened by 5% against the U.S. dollars with all other variables held constant, the profit before income tax for the year ended December 31, 2015 would have been approximately RMB36.0 million higher or lower as a result of net foreign exchange gains on translation of net monetary liabilities denominated in U.S. dollars, the profit before income tax for the years ended December 31, 2016 and 2017 would have been approximately RMB147.3 million lower or higher and RMB124.4 million lower or higher, and the profit before income tax for the three months ended March 31, 2017 and 2018 would have been approximately RMB2.9 million lower or higher and RMB217.6 million lower or higher, respectively, as a result of net foreign exchange losses on translation of net monetary assets denominated in U.S. dollars.

Interest Rate Risk

Our interest rate risk primarily arose from borrowings with floating and fixed rated (details of which have been disclosed in Note 3.1(a) to the Accountant's Report in Appendix I to this prospectus), short-term investments measured at amortized cost, loan receivables, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose us to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher or lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, would have been approximately RMB16.2 million lower or higher, approximately RMB17.3 million lower or higher, RMB16.3 million lower or higher, RMB17.2 million lower or higher, and RMB28.3 million lower or higher, respectively. This analysis does not include the effect of interest capitalized.

If the interest rate of cash and cash equivalents had been 50 basis points higher or lower, the profit before income tax for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2017 and 2018, would have been RMB42.0 million higher or lower, RMB46.2 million higher or lower, RMB57.8 million higher or lower, RMB59.6 million higher or lower, and RMB70.1 million higher or lower, respectively.

We regularly monitor our interest rate risk to ensure there is no undue exposure to significant interest rate movements.

Price Risk

We are exposed to price risk in respect of our long-term investments and short-term investments measured at fair value through profit or loss held by us. We are not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by senior management on a case-by-case basis. The sensitivity analysis is performed by our management. See Note 3.3 to the Accountant's Report included in Appendix I to this prospectus for details.

Credit Risk

We are exposed to credit risk in relation to our cash and cash equivalents, short-term bank deposits, restricted cash, short-term investments measured at amortized cost, loan receivables, trade receivables, other receivables and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, short-term bank deposits, restricted cash and short-term investments, we only transact with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of our counterparties. The credit period granted to our customers is usually no more than 180 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors. In view of the sound collection history of receivables due from them, our management believes that the credit risk inherent in our outstanding trade receivable balances due from them is not significant.

For other receivables, our management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, our management believes that the credit risk inherent in our outstanding other receivable balances due from them is not significant.

Financial guarantee contracts are contracts that require us to make specified payments to reimburse the creditors (i.e. banks and financial institutions) for a loss incurred if a specified debtor fails to make payments when due. For financial guarantee contracts, we have taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is approximately RMB3.1 billion, the majority of which is not credit-impaired on initial recognition or does not result in significant increase in credit risk subsequently. We have recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, we perform standardized credit management procedures. For pre-approval investigation, we use our platform and systems using big data technology to optimize the review process, aspects including credit analysis, assessment of collectability of borrowers, and possibility of misconduct and fraudulent activities. In terms of credit examining management, we have established specific policies and procedures to assess loans offering. For subsequent monitoring, we implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, we have established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. We measure credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("**ECL**") under IFRS 9.

Liquidity Risk

We aim to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, our policy is to regularly monitor our liquidity risk and to maintain adequate cash and cash equivalents or adjusted financing arrangements to meet our liquidity requirements.

For the analysis of our non-derivative financial liabilities that will be settled on a net basis into relevant maturity grouping based on the remaining period at each balance sheet date to the contractual maturity date, please see Note 3.1(c) to the Accountant's Report included in Appendix I to this prospectus.

	Less than 1 year	Between 1 year and 2 years	Between 2 years and 5 years	Over 5 years	Total
		(in thousands of RMB)			
At December 31, 2015					
Borrowings	—	3,246,800	—	—	3,246,800
Trade payables	14,225,540	—	—	—	14,225,540
Other payables	938,463	71,581	—	—	1,010,044
At December 31, 2016					
Borrowings	3,768,500	390,000	—	—	4,158,500
Trade payables	17,577,702	—	—	—	17,577,702
Other payables	1,347,907	1,081	—	—	1,348,988
At December 31, 2017					
Borrowings	3,550,801	2,820,105	3,717,184	714,023	10,802,113
Trade payables	34,003,331	—	—	—	34,003,331
Other payables	3,568,286	206,935	216,496	143,953	4,135,670
Off-balance sheet guarantee liabilities	2,152,169	—	—	—	2,152,169
At March 31, 2018					
Borrowings	5,806,972	1,340,968	6,099,291	809,619	14,056,850
Trade payables	29,491,076	—	—	—	29,491,076
Other payables	3,052,147	303,673	239,270	160,975	3,756,065
Off-balance sheet guarantee liabilities	3,069,484	—	—	—	3,069,484

FUTURE DIVIDENDS

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

Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us. Going forward, we do not have a dividend payout ratio and our dividend distribution will be determined based on the results of our operations, cash flows, financial position, capital adequacy ratio, cash dividends we receive from our invested portfolio ecosystem partners, future business prospects, statutory and regulatory restriction on the payment of dividends by us, and other factors that our Board of Directors may consider relevant. Under the laws of the Cayman Islands, the financial position of accumulated losses does not necessarily restrict us from declaring and paying dividends to our shareholders, as dividends may still be declared and paid out of our share premium account notwithstanding our profitability.

WORKING CAPITAL

Taking into account the financial resources available to us including our cash and cash equivalents on hand, the available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As of March 31, 2018, we did not have any distributable reserves.

LISTING EXPENSES

Based on the mid-point Offer Price of HK$19.5, the total estimated listing related expenses payable by us in connection with the Global Offering is approximately RMB373.9 million (or approximately RMB85.7 million after excluding underwriting commission and incentive fee, SFC transaction levy and Stock Exchange trading fee of approximately RMB288.2 million and assuming the Over-allotment Option is not exercised), of which RMB25.4 million was charged to our consolidated income statement for the year ended December 31, 2017 and RMB12.0 million was charged to our consolidated income statement for the three months ended March 31, 2018. We estimate that the total listing expenses for the year of 2018 in the amount of RMB55.7 million will be charged to our consolidated income statement for the year ending December 31, 2018. The balance of approximately RMB292.8 million is expected to be capitalized.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to the shareholders as of March 31, 2018 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Global Offering been completed as of March 31, 2018 or at any future dates.

	Unadjusted audited consolidated net tangible liabilities of the Group attributable to the Owners of the Company as at March 31, 2018(1)	Estimated net proceeds from the Global Offering(2)	Estimated impact related to the change of terms of convertible redeemable preferred shares upon Listing(3)	Unaudited pro forma adjusted net tangible assets of the Group attributable to the Owners of the Company	Unaudited pro forma adjusted net tangible assets per Share(4)(5)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$17.00 per Share	(130,238,403)	19,679,490	165,330,822	54,771,909	2.45	2.99
Based on an Offer Price of HK$22.00 per Share	(130,238,403)	25,481,768	165,330,822	60,574,187	2.71	3.31

Notes:

(1) The unadjusted audited consolidated net tangible liabilities of the Group attributable to the owners of the Company as of March 31, 2018 is extracted from the Accountant's Report as set out in Appendix I of this prospectus, which is based on the audited consolidated net liabilities of the Group attributable to the owners of the Company as of March 31, 2018 of approximately RMB127,991,999,000 with an adjustment for the intangible assets as at March 31, 2018 of approximately RMB2,246,404,000.

(2) The estimated net proceeds to be received by the Company from the Global Offering are based on the indicative Offer Price of HK$17.00 and HK$22.00 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company (excluding approximately RMB37,441,381 listing expenses which have been charged to our consolidated income statements up to March 31, 2018), and does not take into account any shares which may be sold pursuant to the exercise of the Over-allotment Option or issued upon the exercise of the share options granted under the Pre-IPO ESOP or any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors.

(3) Upon the Listing and the completion of the Global Offering, all the Preferred Shares will be automatically converted into our Class B Shares. These Preferred Shares will be re-designated from liabilities to equity. Accordingly, for the purpose of the unaudited pro forma financial information, the unaudited pro forma adjusted net tangible assets attributable to the owners of the Company will be increased by RMB165,330,822,000, being the carrying amounts of the Preferred Shares as of March 31, 2018.

(4) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 22,376,130,830 Shares were in issue (including the 63,959,619 Class B ordinary shares with a par value of US$0.000025 (639,596,190 Class B Shares following the Share Subdivision) issued to Smart Mobile Holdings Limited on April 2, 2018, the completion of the conversion of Preferred Shares into Class B Shares), assuming that the Global Offering has been completed on March 31, 2018 but does not take into account any shares which may be sold pursuant to the exercise of the Over-allotment Option or issued upon the exercise of the share options granted under the Pre-IPO ESOP or any Shares that may be issued or repurchased by the Company under the general mandates granted to our Directors.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in RMB are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.2206. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to March 31, 2018.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since March 31, 2018, being the end date of the periods reported on in the Accountant's Report in Appendix I to this prospectus, and there is no event since March 31, 2018 that would materially affect the information as set out in the Accountant's Report in Appendix I to this prospectus, except as described below.

On April 2, 2018, we issued 63,959,619 Class B ordinary shares with a par value of US$0.000025 (or 639,596,190 Class B Shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity controlled by Lei Jun, to reward Lei Jun for his contributions to our Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.