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## RISK FACTORS

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

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

### **Risks Relating to Our Business and Industry**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business requires us to use and store confidential information, including, among other things, personally identifiable information (“**PII**”) with respect to our users and employees. We are subject to domestic and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws not only apply to third-party transactions, but also may restrict transfers of PII among us and our international subsidiaries. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause us to incur substantial costs or require us to change our business practices. Non-compliance could result in significant penalties or legal liability. Foreign data protection, privacy, and other laws and regulations can impose different obligations or be more restrictive than those in mainland China. Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. These legislative and regulatory proposals, if adopted, and such interpretations could, in addition to the possibility of fines, result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Recent legal developments in Europe have created compliance uncertainty regarding certain transfers of personal data. For example, the General Data Protection Regulation (GDPR), which came into application in the European Union (EU) on May 25, 2018, applies to all of our activities conducted from an establishment in the EU or related to products and services that we offer to EU users. The GDPR created a range of new compliance obligations, which could cause us to change our business practices, and significantly increased financial penalties for non-compliance.

We make statements about our use and disclosure of PII through our privacy policy, information provided on our internet platform and press statements. Any failure by us to comply with

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these public statements or with other domestic or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others. In addition to reputational impacts, penalties could include ongoing audit requirements and significant legal liability. None of the data security measures can provide absolute security, and losses or unauthorized access to or releases of confidential information, in particular PII, may still occur, which could materially and adversely affect our reputation, financial condition and operating results.

From time to time, concerns may be expressed about whether our products, services, or processes compromise the privacy of users, customers, and others. Concerns about our practices with regard to the collection, use, disclosure, or security of PII or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

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

Our products and services involve the storage and transmission of users' and customers' proprietary information, and theft and security breaches expose us to a risk of loss of this information, improper use and disclosure of such information, litigation, and potential liability. Any systems failure or compromise of our security that results in the release of our users' data, or in our or our users' ability to access such data, could seriously harm our reputation and brand and, therefore, our business, and impair our ability to attract and retain users. We expect to continue to expend significant resources to maintain internal procedures and security protections that shield against theft and security breaches. We have implemented systems and processes intended to secure our information technology systems and prevent unauthorized access to or loss of sensitive data, including through the use of encryption and authentication technologies. As with all companies, these security measures may not be sufficient for all eventualities and may be vulnerable to hacking, employee error, malfeasance, system error, faulty password management or other irregularities. For example, third parties may attempt to fraudulently induce employees or users into disclosing user names, passwords or other sensitive information, which may in turn be used to access our information technology systems. To help protect users and ourselves, we monitor our services and systems for unusual activity and may freeze accounts under suspicious circumstances, which, among other things, may result in the delay or loss of user orders, impede user access to our products and services, or subject us to claims or other legal proceedings against us.

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

During the Track Record Period, we incurred a loss of RMB7.6 billion in 2015, generated a profit of RMB491.6 million in 2016 and incurred losses of RMB43.9 billion, RMB7.9 billion and RMB7.0 billion in 2017 and the three months ended March 31, 2017 and 2018, respectively. Excluding

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the impacts of (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value gains on investments, and (iv) amortization of intangible assets resulting from acquisitions, we had adjusted non-IFRS loss of RMB303.9 million in 2015, and adjusted non-IFRS profit of RMB1,895.7 million, RMB5,361.9 million, RMB660.5 million and RMB1,699.3 million in 2016 and 2017 and in the three months ended March 31, 2017 and 2018, respectively. We cannot assure you that we will be able to generate profits in the future. In addition, we expect our costs and expenses to increase in absolute amounts in the future due to (i) the continued expansion of our business operations, user base and distribution network, (ii) the continued investment in technology infrastructure and network, (iii) increasing selling and marketing expenses as we continue to expand our user base, and (iv) the launch of new and additional products and services, which may incur upfront costs, change our existing revenue and cost structures, and delay the time for us to achieve profitability. If we fail to maintain or increase our operational margin, we may continue to incur losses in the future.

As of March 31, 2018, we had net liabilities of RMB128.0 billion and accumulated losses of RMB136.0 billion, mainly because we incurred significant fair value losses of convertible redeemable preferred shares. The convertible redeemable preferred shares are designated as financial liabilities at fair value through profit or loss on the consolidated balance sheets; they are initially recognized at fair value and the increases in fair value are recognized as fair value loss on the consolidated income statement. The fair value loss of convertible redeemable preferred shares is a non-cash item that will not recur in financial years after the listing of our Shares on the HKEx, as the convertible redeemable preferred shares issued by us will be automatically converted into ordinary shares, but we may still retain accumulated losses due to the fair value loss of our convertible redeemable preferred shares prior to the Listing. Under the laws of the Cayman Islands, dividends may be declared and paid out of our share premium account notwithstanding our profitability. However, such accumulated losses may adversely affect our overall ability to declare and pay dividend after the Listing by reducing our sources for potential dividend declaration and payment.

***We may not be able to sustain our historical growth.***

We have experienced rapid growth since we commenced our business in 2010. During our Track Record Period, our total revenues increased from RMB66.8 billion in 2015 to RMB68.4 billion in 2016, and further increased to RMB114.6 billion in 2017, and 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. However, there is no assurance that we will be able to maintain our historical growth in future periods. Our revenue growth may slow or our revenues may decline for any number of possible reasons, including decreasing consumer spending, increasing competition, slowing growth of the retail or online retail industry, supply and production bottlenecks, emergence of alternative business models, changes in government policies or general economic conditions. If our growth declines, investors' perceptions of our business and business prospects may be adversely affected and the market price of our Shares could decline.

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

We began operations in 2010. Our relatively short operating history makes it difficult to assess our future prospects or forecast our future results. Our users and business partners may not fully understand the value of our products and services, and potential new users and business partners may have difficulty in distinguishing our products and services from those of our competitors. If we fail to

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convince users and business partners of the value of our products and services, the markets for our products and services do not continue to develop as we expect or we fail to address the needs of the dynamic, evolving industries in which we operate, our business may be materially and adversely affected.

We have a limited track record in monetizing our user base by providing internet services. Internet services segment accounted for 4.9%, 9.6%, 8.6%, 10.9% and 9.4%, respectively, of our total revenues in 2015, 2016 and 2017 and in the first quarter of 2017 and 2018, respectively. We currently generate internet services revenues primarily from advertising services and internet value-added services, which mainly include games. If our internet initiatives do not enhance our ability to monetize our existing services and users, or enable us to develop new approaches to monetization, we may not be able to maintain or increase our internet service revenues and profits or recover any associated costs. In addition, we may in the future introduce new services to further diversify our internet service revenue streams, including services with which we have little or no prior development or operating experience. If these new or enhanced services fail to engage users, customers or platform partners, our business and operating results may suffer as a result.

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

A majority of our revenue over the Track Record Period was derived from smartphone sales. For the years ended December 31, 2015, 2016 and 2017 and for the first quarter of 2017 and 2018, our smartphones segment contributed 80.4%, 71.3%, 70.3%, 65.8% and 67.5% of our total revenues, respectively, and we have experienced a decline in revenue from smartphone sales in 2016. Although we have been diversifying our revenue streams by expanding our internet services, as well as the sale of IoT and lifestyle products, if our revenue diversification efforts do not succeed as we anticipate, we may continue to heavily rely on smartphone sales for a significant portion of our revenues. A decrease in the sales volume of our smartphones or their prices, changing user preferences or material quality issues concerning our smartphones may materially and adversely affect our business and operating results. Furthermore, we are exposed to increases in the prices of smartphone components and materials. While we may seek to reflect such increases in the pricing of our smartphones, we may not be able to do so completely or in a timely fashion. Our future growth and financial performance may depend in part on our ability to develop, produce and sell our smartphones. If we fail to deliver product enhancements, new releases or new products that our users consider useful and attractive, our business and results of operations would be harmed.

***The sales volume and average selling price of smartphones in the global market had experienced a declining trend in the first quarter of 2018. A continual decline in the sales volume and average selling price of smartphones in the global market could have a material adverse effect on our business.***

The overall global market for smartphones has generally been declining in terms of sales volume and average selling price. In the first quarter of 2018, the number of global smartphone unit shipments and the global smartphone average selling price experienced a decrease of 15.6% and 4.6%, respectively, on a quarter-over-quarter basis. Although our smartphone sales volume and the total revenues from our smartphone sales in the first quarter of 2018 had achieved a rapid increase of 117.1% and 90.6%, respectively, on a quarter-over-quarter basis, we cannot assure you that we will be able to respond quickly to any challenging development of the global smartphone markets to capture

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market share from our competitors, especially along with our international expansion. A continual decline in the sales volume and average selling price of smartphones in the global market may adversely affect the growth of our business, which could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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



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***Our business is subject to the risks of international operations.***

We derive a significant portion of our revenues from our international operations. During the Track Record Period, we generated 6.1%, 13.4%, 28.0%, 23.2% and 36.2% of our revenues in the rest of the world in 2015, 2016 and 2017 and in the first quarter of 2017 and 2018, respectively. As we plan to expand our operations in additional emerging markets and regions, we may have to adapt our business models to the local market due to various legal requirements and market conditions. Our international operations and expansion efforts have resulted and may continue to result in increased costs and are subject to a variety of risks, including increased competition, uncertain enforcement of our intellectual property rights, more complex distribution logistics and the complexity of compliance with foreign laws and regulations. Compliance with applicable Chinese and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws, restrictions on foreign investment, and anti-competition regulations, increases the costs and risk exposure of doing business in foreign jurisdictions. Although we have implemented policies and procedures to comply with these laws and regulations, a violation by our employees, contractors or agents could nevertheless occur. In some cases, compliance with the laws and regulations of one country could violate the laws and regulations of another country. Violations of these laws and regulations could materially and adversely affect our brand, international growth efforts and business.

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

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

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

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

Many of our products and provision of our services include or rely on third-party intellectual property, which requires licenses from those third parties. For example, we have entered into worldwide intellectual property cross license agreements with a number of global technology leaders in

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the mobile telecommunications market. In addition, we contract with numerous third parties to offer their digital content, including music, films, TV shows and online literature, to our users. There is no assurance that the necessary licenses can be obtained on acceptable terms, or at all. If we fail to renew any intellectual property license agreements on acceptable terms, we may not be able to use the patents and technologies of these third parties in our products, which are critical to our success. As we continue to introduce new products and services and expand our global footprint, licensing and royalty fees that we pay to third-party intellectual property holders may increase significantly. We cannot assure you that we will be able to effectively control the level of licensing and royalty fees paid to third parties, and significant increases in such fees could have a material and adverse impact on our future profitability. Seeking alternative patents and technologies may be difficult and time-consuming, and we may not be successful in finding alternative technologies or incorporating them into our products. Furthermore, some third-party content providers and distributors currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for us to license or otherwise distribute their content in the future. Other content owners, providers or distributors may seek to limit our access to, or increase the cost of, such content. In addition, we built our proprietary operating system, MIUI, on the free Android kernel that was developed by Google. In the event that Google limits the access to Android kernel or its modules, charges a fee for the use of Android kernel, or ceases to update Android kernel, the ongoing operation of MIUI may be significantly impacted, and our smartphone and internet services segments, as well as our business operations and financial results as a whole, may be materially and adversely affected. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude us from selling certain products, providing certain services including digital content, or otherwise have a material adverse impact on our financial condition and operating results.

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

We are subject to various legal, administrative proceedings and claims that have arisen in the ordinary course of business and have not yet been fully resolved, and new claims may arise in the future. In addition, agreements entered into by us sometimes include indemnification provisions which may subject us to costs and damages in the event of a claim against an indemnified third party. In particular, we have been, and may continue to be, subject to various intellectual property claims, including patent, copyright and trademark disputes, relating to technologies or intellectual property used in our products and services and claiming infringement or violations of intellectual property rights, and new claims may arise in the future. For example, on December 5, 2014, our subsidiaries, Xiaomi Inc. and Xiaomi India Technology, were, among others, named as defendants in a civil lawsuit filed by Telefonaktiebolaget LM Ericsson (PUBL) (“**Ericsson**”) before the High Court of Delhi at New Delhi, India. Ericsson claims, among other things, that we had infringed eight of its patents registered in India in the field of telecommunications by selling and marketing various models of mobile handsets and other mobile accessories in India incorporating those patents without procuring a valid license from Ericsson. On May 30, 2018, Xiaomi Inc. was named as a defendant in a civil lawsuit filed by TOT Power Control SL (“**TOT**”) before the Mercantil Court No. 4 of Barcelona, Spain. TOT claims, among other things, that we had infringed one of its patents registered in Spain in the field of wireless communication systems by selling various models of mobile handsets in Spain incorporating such patent without procuring a valid license from TOT. In addition, on January 12, 2018, our subsidiaries, Xiaomi Communications, Xiaomi Inc., and MiHome Business Co., Ltd. (Shenzhen) First Branch were

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named as defendants in a lawsuit filed by Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. (“**Yulong**”) before Shenzhen Intermediate People’s Court in Guangdong Province. Yulong claims that we had infringed three invention patents held by Yulong by producing and selling products that incorporate technologies covered by those patents. Yulong filed a request with the Shenzhen Intermediate People’s Court on May 3, 2018 requesting the court to grant an injunction order against Xiaomi Communications. In addition, on May 10, 2018, Yulong filed a lawsuit against Xiaomi Communications, Xiaomi Inc., and MiHome Business Co., Ltd. (Nanjing) First Branch before the Nanjing Intermediate People’s Court in Jiangsu Province and claims that we had infringed an invention patent held by Yulong by producing, promising to sell and selling the alleged infringing products that incorporate technologies covered by such patent. Furthermore, Xiaomi Communications, Xiaomi Inc. and certain other parties were named as defendants in a lawsuit filed by Hangzhou Lianan Anfang Engineering Co., Ltd. (“**Hangzhou Lianan**”) on December 4, 2017 before Hangzhou Intermediate People’s Court in Zhejiang Province. Hangzhou Lianan claims that we had infringed “MIKA 米家” trademarks in various products, which are sold on Mi Store and our third-party online distribution partners. We are vigorously defending infringement actions, including those mentioned above, in courts and arbitral bodies in a number of jurisdictions. The plaintiffs in these actions sometimes seek injunctions and substantial damages.

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

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

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

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## RISK FACTORS

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

We regard our trademarks, copyrights, patents, domain names, know-how, proprietary technologies, and similar intellectual property as critical to our success, and we rely on a combination of intellectual property laws and contractual arrangements, including confidentiality, invention assignment and non-compete agreements with our employees and others, to protect our proprietary rights. We may become an attractive target to counterfeiting and intellectual property theft activity because of our brand recognition. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated, or such intellectual property may not be sufficient to provide us with competitive advantages. In addition, there can be no assurance that our patent applications will be approved, that any issued patents will adequately protect our intellectual property, or that such patents will not be challenged by third parties or found by a judicial authority to be invalid or unenforceable. Further, because of the rapid pace of technological change in our industry, parts of our business rely on technologies developed or licensed by third parties, and we may not be able to obtain or continue to obtain licenses and technologies from these third parties at all or on reasonable terms.

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

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

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## RISK FACTORS

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

We cannot assure you that our customers will consistently make timely and full payments to us. If we fail to collect all or part of such payments in a timely manner, or at all, or if our major customers extend their trade receivables turnover days, our liquidity and financial condition may be materially and adversely affected.

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

We record a write-down for inventories that have exceeded net realizable value. We have recorded inventory impairment expenses in the amount of RMB777.0 million, RMB280.0 million, RMB652.6 million, RMB321.8 million for the years ended December 31, 2015, 2016 and 2017 and for the first quarter of 2018, respectively. We also review our long-lived assets for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. In addition, we are exposed to credit risk in relation to our loan receivables, and in the event of a substantial raise in the default exposure of these loan receivables, we will incur significant impairment charges. If we determine that impairment has occurred, we record a write-down equal to the amount by which the carrying value of the asset exceeds its fair value. Although we believe our provisions related to inventory, capital assets, inventory prepayments, loan receivables and other assets are currently adequate, no assurance can be given that we will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which we compete.

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

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

Because we currently obtain certain core raw materials and components from limited sources, we are subject to supply and pricing risks. Purchases from our five largest suppliers for each of 2015, 2016 and 2017 and for the three months ended March 31, 2018 accounted for approximately 41.7%, 37.6%, 42.0% and 37.3% of our total purchase amounts during those periods, respectively. Our largest supplier for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018 accounted for approximately 11.8%, 13.8%, 14.3% and 10.2% of our total purchase amount during those periods, respectively. Some raw materials and components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While we have entered into agreements for the supply of many raw materials, components and IoT and lifestyle products, there can be no assurance that we will be able to extend or renew these agreements on similar terms, or at all. A number of suppliers of raw materials, components and products may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting our ability to obtain sufficient quantities of raw materials and components on commercially reasonable terms. The effects of global or regional economic conditions on our suppliers also could affect our ability to obtain raw materials, components and products. Therefore, we remain subject to significant risks of supply shortages and price increases.

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## RISK FACTORS

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

***We rely on Qualcomm, a leading SoC supplier, for its SoC supply for most of our smartphone products.***

We rely on Qualcomm, a leading SoC supplier based in the United States and our largest supplier of SoCs, for its SoC supply for most of our smartphone products. Qualcomm was also our largest supplier during the Track Record Period. In April 2018, the United States Department of Commerce imposed a denial of export privileges against a major telecommunications company based in mainland China. We cannot assure you that we will not be subject to similar export restrictions imposed by the United States government in the future. If we were to experience any material disruption to our sourcing of SoCs from Qualcomm, we may not be able to switch to an alternative supplier of SoCs within a short period time or at all. In the event we are subjected to any export restriction that limits our ability to procure raw materials and components, including SoCs, from the United States, our business operations and financial results may be materially and adversely affected.

***We depend on component, product assembly and logistical services provided by suppliers and outsourcing partners. Such arrangements reduce our direct control over production and distribution. Any failure of our supply, assembly and logistics partners to perform their responsibilities or to be in compliance with all applicable laws and regulations may have a material negative impact on our cost or supply of components or finished goods.***

Substantially all of our assembly is performed in whole or in part by outsourcing partners located in mainland China, India and Indonesia. We have also outsourced much of our transportation and logistics management. While these arrangements may lower operating costs, they also reduce our direct control over production and distribution. We may experience operational difficulties with our suppliers and outsourcing partners, including reductions in the availability of production capacity, failures to comply with product specifications, insufficient quality control, failures to meet production deadlines, increases in assembling costs and longer lead time required. Our suppliers and outsourcing partners may experience disruptions in their production and assembly operations due to equipment breakdowns, labor strikes or shortages, natural disasters, component or material shortages, cost increases, environmental non-compliance issues or other similar problems. In addition, we may not be able to renew contracts with our suppliers and outsourcing partners or identify substitute partners who are capable of supplying services, components and assembly capacities for new products we target to launch in the future. Although arrangements with these partners may contain provisions for warranty expense reimbursement, we may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. Any failure of our supply, assembly and logistics partners to perform their responsibilities or to be in compliance with all applicable laws and regulations may have a material negative impact on our cost or supply of components or finished goods. In addition, assembly or logistics in our primary locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to,

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## RISK FACTORS

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natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

***Certain current suppliers of the Group have experienced historical environmental non-compliance incidents.***

Certain current suppliers of the Group have experienced historical environmental non-compliance incidents. We cannot assure you that our suppliers will not violate relevant environmental laws and regulations in the future. Non-compliance of our suppliers with relevant environmental laws and regulations may cause disruptions to our product supply to users, increase our cost of sales and have a material and adverse impact on our business operations and financial results.

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

Our top five customers accounted for approximately 29.7%, 27.0%, 32.0% and 27.4% of our total revenue in 2015, 2016 and 2017 and for the three months ended March 31, 2018, respectively. Our largest customer accounted for approximately 10.4%, 15.4%, 13.5% and 11.1% of our revenue for the years ended December 31, 2015, 2016 and 2017 and for the three months ended March 31, 2018, respectively. We cannot assure you that we will be able to maintain good business relationships with our top five customers going forward. Our top five customers may not continue to provide us with new businesses in the future at a level similar to that in the past or at all. Should any of these top five customers reduce substantially the size of their purchases from with us or terminate their business relationship with us entirely for any reason, or is wound-up or fails to pay for its purchases on time, we cannot assure you that we will be able to secure new businesses from other customers to compensate for such substantial reduction in purchases or loss of business entirely. In addition, we cannot assure you that the new businesses secured from other customers for replacement, if any, will be on commercially comparable terms. If any of the foregoing materializes, our business, operating results and financial condition may be materially and adversely affected.

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

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

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

We believe decisions by users to purchase our hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for our products. If third-party software applications and services cease to be developed and maintained for our products, customers may choose not to buy our products. Android devices are subject to rapid

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

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

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

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

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

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

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



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

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

We are unable to quantify the financial impact at this stage as we cannot predict either the future growth of Xiaomi Finance or if and when we will lose equity control of Xiaomi Finance. For the first quarter of 2018, the revenue and gross profit of Xiaomi Finance Group accounted for approximately 0.9% and 3.3% of those of our Group, respectively. As of March 31, 2018, the total assets of Xiaomi Finance Group accounted for approximately 13.5% of those of our Group. Xiaomi Finance is still in an early development stage, and we cannot assure you that it will not become more significant to our Group in the future, particularly if its growth outpaces that of the Group as a whole. In general, the more significant Xiaomi Finance is relative to our Group, the greater impact its de-consolidation is expected to have on our financial statements.

Furthermore, Xiaomi Finance has a core business that is different from that of our Group. As the operations of Xiaomi Finance mature going forward, we cannot assure you that the interests of our Company and the employee-owners and/or option-holders of Xiaomi Finance will always align, and that the relevant safeguards described in the section headed “Waivers from Compliance with the Listing Rules and Exemptions from the Companies (Winding Up and Miscellaneous Provisions) Ordinance—Waiver in relation to the XMF Share Option Scheme II,” will adequately protect our interests.

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## RISK FACTORS

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***Rapid technological changes may result in impairment of our intangible assets, which could negatively affect our reported results of operations.***

Our intangible assets amounted to RMB553.8 million, RMB1,120.1 million, RMB2,274.4 million and RMB2,246.4 million as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively. Among our intangible assets, trademarks, patents and domain names amounted to RMB271.4 million, RMB474.8 million, RMB723.2 million and RMB731.0 million as of December 31, 2015, 2016 and 2017 and March 31, 2018, respectively. 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. We are required to review our intangible assets for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable, including a decline in company value and a slowdown in our industry. Our products and services compete in highly competitive global markets characterized by among other factors, rapid adoption of technological and product advancements by competitors, which could negatively affect the assumptions used in cash flow generated from relevant intangible assets for impairment assessment and the estimated useful lives of intangible assets. If the carrying value of our intangible assets are determined to be impaired, we would be required to write down the carrying value or record charges to earnings in our financial statements, thereby materially and adversely affect our results of operations.

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

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

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

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

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## RISK FACTORS

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***Any trade or import protection policies may affect our business.***

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

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

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

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

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

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

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## RISK FACTORS

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

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

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

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

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

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

Our retail stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel. We also have entered into substantial operating lease commitments for retail space. A decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs. Many factors unique to retail operations, some of

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## RISK FACTORS

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which are beyond our control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, as well as our inability to manage costs associated with store construction and operation, more challenging environments in managing retail operations, costs associated with unanticipated fluctuations in the value of retail inventory, and our inability to obtain and renew leases in quality retail locations at a reasonable cost.

***We face risks relating to our acquisitions, investments and alliances.***

We have invested, and in the future, may invest, in a diverse array of businesses, technologies and ventures, and may enter into acquisitions and alliances from time to time. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses and unidentified issues not discovered in our due diligence. These new ventures are inherently risky and may not be successful. In addition, upon completion of an investment or acquisition, we may allocate significant resources to the integration new business into our existing business to realize synergetic benefits. The integration process involves certain risks and uncertainties, some of which are outside our control, and there can be no assurance that we will be able to realize the anticipated benefits, synergies, cost savings or efficiencies. These transactions also involve significant challenges and risks in the following aspects, among others:

- for investments over which we do not obtain control, we may lack influence over the operations of these investees, which may prevent us from achieving our strategic goals in these investments;
- uncertain return of capital. For example, the recoverability of our investments in associates, recorded RMB2.7 billion as of March 31, 2018, will be subject to uncertainty given that we will only realize return upon dividend payments from these associates unless we dispose of these investments;
- unforeseen or hidden liabilities or additional operating losses, costs and expenses that may adversely affect us following our acquisitions or investments; and
- the impact of the fair value changes of investments measured at fair value through profit or loss and convertible redeemable preferred shares on our financial performance and the associated uncertainties in accounting estimates as the valuations of these investments require the use of unobservable inputs and judgments.

In addition, we may experience constraints on our liquidity because gains or losses from those investments do not give rise to any change in our cash position unless we dispose of the relevant assets or receive dividend payments. As of March 31, 2018, RMB1.2 billion or 43.3% of the investments in associates accounted for using equity method are public companies listed on major stock exchanges in mainland China and the U.S., while the remaining investments do not have readily available markets for trading.

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

We may be subject to information technology system failures or network disruptions caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy

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## RISK FACTORS

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and other continuity measures may be ineffective or inadequate, and our business continuity and disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could adversely impact our business by, among other things, preventing access to our internet services, interfering with customer transactions or impeding the assembling and shipping of our products. These events could materially and adversely affect our reputation, financial condition and operating results, or result in adverse publicity, claims or other legal proceedings against us.

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

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

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

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

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

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

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as our business continues to grow and failure in relocating our affected operations could adversely affect our business and operations.

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

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

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

War, terrorism, geopolitical uncertainties, public health issues and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on us, our suppliers, logistics providers, outsourcing partners and users. Our business operations are subject to interruption by, among others, natural disasters, whether as a result of climate change or otherwise, fire, power shortages and other industrial accidents, terrorist attacks and other hostile acts, labor disputes, public health issues, the existence of anti-Chinese sentiment and related events, demonstrations or policies such as the implementation of protectionism against mainland Chinese companies, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our users, or to receive components or products from our suppliers and ecosystem partners, and create delays and inefficiencies in our supply chain. While our suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to our business and harm to our reputation. Should major public health issues, including pandemics, arise, we could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of our outsourcing partners, component suppliers and ecosystem partners. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

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

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

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

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

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

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

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

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



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

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. For example, some of our technologies for program code writing, compiling and reviewing, code base management and HTTP & HTTP/2 client services use open source software. Such open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our products and services that incorporate the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open source software, or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose or provide at no cost any of our source code that incorporates or is a modification of such licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages and enjoined from the sale of our products and services that contained the open source software. Any of the foregoing could disrupt the distribution and sale of our products and services and harm our business.

***We had negative cash flows from operations in the past. We may need additional capital, and financing may not be available on terms acceptable to us, or at all.***

We experienced operating cash outflow in 2015, 2017 and in the first quarter of 2018 in the amounts of RMB2.6 billion, RMB1.0 billion and RMB1.3 billion, respectively. In light of our historical cash needs and our rapid growth, we may in the future require additional cash resources due to changed business conditions or other future developments, including any changes in our pricing policy, marketing initiatives or investments we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to obtain a credit facility or sell additional equity or debt securities. The sale of additional equity securities could result in dilution of our existing shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. It is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all.

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

We have adopted our Pre-IPO ESOP for the purpose of granting share-based compensation awards to employees, directors and consultants to incentivize their performance and align their interests with ours. As of the Latest Practicable Date, we granted options to purchase an aggregate 2,512,694,900 Class B Shares (adjusted after taking into account the Share Subdivision). We have incurred share-based compensation expenses of RMB690.7 million, RMB871.2 million, RMB909.2 million, RMB136.2 million and RMB488.2 million for the years ended December 31, 2015, 2016 and 2017 and for the first quarter of 2017 and 2018, respectively, and we may grant additional share-based awards under the Pre-IPO ESOP. On April 2, 2018, we issued 63,959,619 Class B ordinary shares of par value US\$0.000025 each (or 639,596,190 Class B Shares following the Share

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Subdivision) at par value to Smart Mobile Holdings Limited, an entity controlled by Lei Jun, to reward Lei Jun for his contributions to our Company. Such issuance would result in significant share-based compensation expenses in the second quarter of 2018 and for the fiscal year 2018. RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by our Group. Any additional grant of share-based awards by us will further increase our share-based compensation expenses, and dilute existing shareholders' shareholding.

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

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

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

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

We may be the target of anti-competitive, harassing, or other detrimental conduct by third parties. Such conduct includes complaints, anonymous or otherwise, to regulatory agencies. We may be subject to government or regulatory investigation as a result of such third-party conduct and may be required to expend significant time and incur substantial costs to address such third-party conduct, and there is no assurance that we will be able to conclusively refute each of the allegations within a reasonable period of time, or at all. Additionally, allegations, directly or indirectly against us, may be posted online by anyone, whether or not related to us, on an anonymous basis. Consumers value readily available information concerning retailers, manufacturers, and their goods and services and often act on such information without further investigation or authentication and without regard to its accuracy. The availability of information on social media is virtually immediate, as is its impact. Social media immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information posted may be inaccurate and adverse to us,

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and it may harm our financial performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Our reputation may be negatively affected as a result of the public dissemination of anonymous allegations or malicious statements about our business, which in turn may cause us to lose market share, customers and revenues.

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

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

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

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

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

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

Our business and financial performance in India could be adversely affected by unfavorable changes in or interpretations of existing, or the promulgation of new, laws, rules and regulations applicable to us and our business in India. Such unfavorable changes could decrease demand for our

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products and services, increase costs and/or subject us to additional liabilities in India, which in turn could have a material adverse effect on our financial condition and results of operations. For details on material laws and regulations applicable to our business in India, please see the section entitled “Regulations—India Laws and Regulations Relating to Our Business.”

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

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

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

### **Risks Relating to Doing Business in Mainland China**

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

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

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

Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be

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found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue that were generated through the unlicensed internet or mobile activities, the imposition of fines and the discontinuation or restriction of our operations. Any such penalties may disrupt our business operations and materially and adversely affect our business, financial condition and results of operations.

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

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

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

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

The legal system in mainland China is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The legal system in mainland China evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. Our WFOEs are incorporated in mainland China and are wholly-owned by us. Our WFOEs are subject to laws and regulations applicable to foreign investment in mainland China in general, as well as specific laws and regulations applicable to wholly foreign-owned enterprises. However, these laws, regulations and legal requirements are constantly changing and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the mainland Chinese legal system, particularly with regard to internet-related industries, including the

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promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in mainland China may be protracted and result in substantial costs and diversion of resources and management attention.

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

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

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

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

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

On April 22, 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as People’s Republic of China Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (“**Circular 82**”) that sets out the standards and procedures for

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determining whether the “de facto management body” of an enterprise registered outside of mainland China and controlled by mainland Chinese enterprises or mainland Chinese enterprise groups is located within mainland China. Further to SAT Circular 82, on July 27, 2011, the SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法》(試行)) (“**SAT Bulletin 45**”), to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011 and revised on April 17, 2015. SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities’ procedures.

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

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

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

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

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We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM or its local counterparts may delay or inhibit our ability to complete such transactions. It is unclear whether our business would be deemed to be in an industry that raises “national defense and security” or “national security” concerns. However, the MOFCOM or other government agencies may publish explanations in the future determining that our business is in an industry subject to the security review, in which case our future acquisitions in mainland China, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

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

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

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

On February 3, 2015, the SAT issued the Announcement of the SAT on Several Issues concerning the Enterprise Income Tax on Income from the Indirect Transfer of Assets by Non-Resident Enterprises (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (“**SAT Circular 7**”), which abolished certain provisions in SAT Circular 698, as well as certain other rules providing clarification on SAT Circular 698. SAT Circular 7 provided comprehensive guidelines relating to, and also heightened the mainland Chinese tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of mainland Chinese taxable assets. Under SAT Circular 7, the tax authorities in mainland China are entitled to reclassify the nature of an indirect transfer of mainland Chinese taxable assets, when a non-resident enterprise transfers mainland Chinese taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly



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holding such mainland Chinese taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of mainland Chinese enterprise income taxes and without any other reasonable commercial purpose. However, SAT Circular 7 contains certain exemptions, including (i) where a non-resident enterprise derives income from the indirect transfer of mainland Chinese taxable assets by acquiring and selling shares of an overseas listed company which holds such mainland Chinese taxable assets on a public market; and (ii) where there is an indirect transfer of mainland Chinese taxable assets, but if the non-resident enterprise had directly held and disposed of such mainland Chinese taxable assets, the income from the transfer would have been exempted from enterprise income tax in mainland China under an applicable tax treaty or arrangement.

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

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

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

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

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

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

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between mainland China and your jurisdiction of residence that provides for a different income tax arrangement, mainland Chinese withholding tax at the rate of 10% is normally applicable to dividends from mainland Chinese sources payable to investors that are resident enterprises outside of mainland China, which do not have an establishment or place of business in mainland China, or which have such establishment or place of business if the relevant income is not effectively connected with the establishment or place of business. Any gain realized on the transfer of shares by such investors is subject to 10% (or a lower rate) mainland Chinese income tax if such gain is regarded as income derived from sources within mainland China unless a treaty or similar arrangement otherwise provides. Under the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules, dividends from sources within mainland China paid to foreign individual investors who are not residents in mainland China are generally subject to a mainland Chinese withholding tax at a rate of 20% and gains from mainland Chinese sources realized by such investors on the transfer of shares are generally subject to 20% mainland Chinese income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and mainland Chinese laws.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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depreciated approximately 2.5% against the U.S. dollar in 2014. In August 2015, the People's Bank of China changed the way it calculates the mid-point price of Renminbi against the U.S. dollar, requiring the market-makers who submit for reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. As a result, in 2015, the value of the Renminbi depreciated approximately 5.8% against the U.S. dollar. On November 30, 2015, the Executive Board of the International Monetary Fund (IMF) completed the regular five-year review of the basket of currencies that make up the Special Drawing Right ("SDR") and decided that with effect from October 1, 2016, Renminbi is determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the Euro, the Japanese yen, and the British pound. We recorded net foreign exchange losses in the amount of RMB506.5 million, RMB54.3 million, RMB144.3 million, RMB76.7 million and RMB28.1 million for the years ended December 31, 2015, 2016 and 2017 and for the first quarter of 2017 and 2018, respectively. Currency translation differences represent the differences arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group. We recorded in the statement of other comprehensive income for the foreign translation differences a decrease of RMB5.6 billion, a decrease of RMB6.8 billion, an increase of RMB7.9 billion and an increase of RMB5.7 billion for the years ended December 31, 2015, 2016 and 2017, and the first quarter of 2018, respectively. A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of U.S. dollars to presentation currency of RMB. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the mainland Chinese government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar or the U.S. dollar in the future.

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

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

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

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On July 14, 2006, Hong Kong and mainland China entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”) and revised on July 3, 2008, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in mainland China. Similarly, a party with a final judgment rendered by a mainland Chinese court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a mainland Chinese court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in mainland China if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the revised Arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

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

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

### **Risks Relating to Our Contractual Arrangements**

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

Current mainland Chinese laws and regulations impose certain restrictions or prohibitions on foreign ownership of companies that engage in value-added telecommunications services and other related businesses, including the provision of internet information and cultural services. In particular, under the Guidance Catalog of Industries for Foreign Investment, the operation of certain of our internet services falls into the value-added telecommunications services business and is considered “restricted,” and the operation of online and mobile games, provision of audio-visual program services and online reading services to the public fall into the internet cultural services business and are considered “prohibited.” We are a company incorporated under the laws of the Cayman Islands. To comply with mainland Chinese laws and regulations, we conduct our internet-related business in mainland China through a number of VIEs incorporated in mainland China. The VIEs are owned by mainland Chinese citizens who are our Founder, Co-founders or shareholders, with whom we have contractual arrangements. The contractual arrangements give us effective control over each of the VIEs and enable us to obtain substantially all of the economic benefits arising from the VIEs as well as

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consolidate the financial results of the VIEs in our results of operations. The mainland Chinese government may not agree that these arrangements comply with mainland Chinese licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. These Consolidated Affiliated Entities hold the licenses, approvals and key assets that are essential for the operations of our Relevant Businesses.

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

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

Furthermore, any of the assets under the name of any record holder of equity interest in material Consolidated Affiliated Entities, including such equity interest, may be put under court custody in connection with litigation, arbitration or other judicial or dispute resolution proceedings against that record holder. We cannot be certain that the equity interest will be disposed of in accordance with the contractual arrangements. In addition, new mainland Chinese laws, rules and regulations may be introduced to impose additional requirements that may impose additional



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challenges to our corporate structure and contractual arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct internet-related businesses. In addition, if the imposition of any of these penalties causes us unable to direct the activities of such Consolidated Affiliated Entities and its subsidiary or lose the right to receive their economic benefits, we would no longer be able to consolidate such Consolidated Affiliated Entities into our financial statements, thus adversely affect our results of operation.

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

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

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

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

There is substantial uncertainty regarding the Draft Foreign Investment Law, including with respect to its final content (especially the provisions dealing with VIE structure), adoption timeline or effective date. Lei Jun, our executive Director, Founder, Chairman and Chief Executive Officer, is a Chinese national and will beneficially own 54.74% of the voting power of our outstanding share capital immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised and the share options granted under the Pre-IPO ESOP are not exercise), and is therefore the “actual controller” of the Company. However, JunHe advised that it is still unclear as at the Latest Practicable Date as to (i) what level of “actual control” is required to qualify as a domestic enterprise; (ii) how domestic enterprises operated by foreign investors under a contractual arrangement are to be regulated; and (iii) what businesses are to be classified as “restricted business” or “prohibited business” in the negative list under the Draft Foreign Investment Law.

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If, upon its enactment, the current Draft Foreign Investment Law (i) does not recognize our structure under our Contractual Arrangements as domestic investment; (ii) does not provide any preferential treatment to investors from Hong Kong, Macau and Taiwan; (iii) requires foreign-invested enterprises to apply for access permission, a government permit that allows foreign investors to invest in “restricted” and/or “prohibited” businesses on the negative list, our Contractual Arrangements may be regarded as invalid and illegal if we have not obtained such access permission. As a result, our Group may be required to dispose of the Relevant Businesses (as defined in the section headed “Contractual Arrangements”) in mainland China and our Group would not be able to continue to conduct the Relevant Business. For details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our Consolidated Affiliated Entities, please refer to the section headed “Contractual Arrangements—Development in Legislation on Foreign Investment in mainland China” in this document.

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

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

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

Since mainland Chinese laws limit foreign equity ownership in the Relevant Businesses in mainland China, we operate our Relevant Businesses in mainland China through our Consolidated Affiliated Entities, in which we have no ownership interest and rely on a series of contractual arrangements with our Consolidated Affiliated Entities and their respective equity holders to control

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and operate these businesses. Our revenue and cash flow from our Relevant Businesses are attributed to our Consolidated Affiliated Entities. The contractual arrangements may not be as effective as direct ownership in providing us with control over our Consolidated Affiliated Entities. Direct ownership would allow us, for example, to directly or indirectly exercise our rights as a shareholder to effect changes in the boards of directors of our Consolidated Affiliated Entities, which, in turn, could effect changes, subject to any applicable fiduciary obligations at the management level. However, under the contractual arrangements, as a legal matter, if our Consolidated Affiliated Entities or their respective equity holders fail to perform their respective obligations under the contractual arrangements, we may have to incur substantial costs and expend significant resources to enforce those arrangements and resort to litigation or arbitration and rely on legal remedies under mainland Chinese laws. These remedies may include seeking specific performance or injunctive relief and claiming damages, any of which may not be effective. In the event we are unable to enforce these contractual arrangements or we experience significant delays or other obstacles in the process of enforcing these contractual arrangements, we may not be able to exert effective control over our affiliated entities and may lose control over the assets owned by our Consolidated Affiliated Entities. As a result, we may be unable to consolidate our Consolidated Affiliated Entities in our consolidated financial statements, which could materially and adversely affect our results of operations and financial condition.

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

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

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

The tax regime in mainland China is rapidly evolving and there is significant uncertainty for taxpayers in mainland China as mainland Chinese tax laws may be interpreted in significantly different

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ways. The mainland Chinese tax authorities may assert that we or our subsidiaries or Consolidated Affiliated Entities or their equity holders owe and/or are required to pay additional taxes on previous or future revenue or income. In particular, under applicable mainland Chinese laws, rules and regulations, arrangements and transactions among related parties, such as the contractual arrangements with our Consolidated Affiliated Entities, may be subject to audit or challenge by the mainland Chinese tax authorities. If the mainland Chinese tax authorities determine that any contractual arrangements were not entered into on an arm's length basis and therefore constitute a favorable transfer pricing, the mainland Chinese tax liabilities of the relevant subsidiaries and/or Consolidated Affiliated Entities and/or equity holders of Consolidated Affiliated Entities could be increased, which could increase our overall tax liabilities. In addition, the mainland Chinese tax authorities may impose late payment interest. Our profit may be materially reduced if our tax liabilities increase.

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

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

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

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

All the agreements which constitute the contractual arrangements are governed by mainland Chinese laws and provide for the resolution of disputes through arbitration in mainland China. Accordingly, these agreements would be interpreted in accordance with mainland Chinese laws and

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disputes would be resolved in accordance with mainland Chinese legal procedures. The legal environment in mainland China is not as developed as in other jurisdictions and uncertainties in the mainland Chinese legal system could limit our ability to enforce the contractual arrangements. In the event that we are unable to enforce the contractual arrangements, or if we suffer significant time delays or other obstacles in the process of enforcing them, it would be very difficult to exert effective control over our Consolidated Affiliated Entities, and our ability to conduct our Relevant Business and our financial condition and results of Relevant Business operations may be materially and adversely affected.

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

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

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

Pursuant to the Contractual Arrangements, we have the exclusive right to purchase all or any part of the equity interests in our Consolidated Affiliated Entities from the respective equity holders for

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a nominal price, which is equal to the loan granted by our WFOEs to the equity holders of the Consolidated Affiliated Entity, unless the relevant government authorities or mainland Chinese laws request that another amount be used as the purchase price and in which case the purchase price shall be the lowest amount under such request. Subject to relevant laws and regulations, the respective equity holders shall return any amount of purchase price they have received to our WFOEs. If such a return of purchase price takes place, the competent tax authority may require our WFOEs to pay enterprise income tax for ownership transfer income with reference to the market value, in which case the amount of tax could be substantial.

### **Risks Relating to the WVR Structure**

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

Our Company is controlled through weighted voting rights. Each Class A Share has 10 votes per share and each Class B Share has one vote per share except with respect to voting on resolutions with respect to a very limited number of Reserved Matters, in relation to which, each share is entitled to one vote. Immediately after the completion of the Global Offering, Lei Jun and Lin Bin will be the WVR Beneficiaries and will collectively beneficially own all of our issued and outstanding Class A Shares, which represent approximately 81.02% of the voting power of our outstanding share capital (assuming the Over-allotment Option is not exercised and the share options granted under the Pre-IPO ESOP are not exercised), for resolutions in relation to matters other than the Reserved Matters, in relation to which each Share carries one vote. Lei Jun and Lin Bin therefore have significant influence over management and affairs of the Company, and over all matters requiring shareholder approval, including the election of directors (excluding the appointment, election or removal of any independent non-executive Director) and significant corporate transactions, such as a merger or other sale of our Company or our assets, for the foreseeable future. In addition, because each Class B Share carries only one tenth of the voting rights of each Class A Share (except as required by applicable law and in relation to the Reserved Matters), the issuance of the Class B Shares, including future stock-based acquisition transactions and employee equity incentive programs, could prolong the duration of the WVR Beneficiary's ownership of our voting power immediately after the completion of the Global Offering and their ability to determine the outcome of most matters submitted to a vote of our Shareholders. For further details about our shareholding structure, see section headed "Share Capital—Weighted Voting Rights Structure."

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

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

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

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### **Risks Relating to the Global Offering**

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

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

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

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

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

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

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

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

As the Offer Price of our Class B Shares is higher than the net tangible book value per Class B Share of our Shares immediately prior to the Global Offering, purchasers of our Class B Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future,

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purchasers of our Class B Shares in the Global Offering may experience further dilution in their shareholding percentage.

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

This document, particularly the section headed “Industry Overview,” contains information and statistics relating to the smartphone, consumer IoT and internet service industries as well as retail markets. Such information and statistics have been derived from third-party reports, either commissioned by us or publicly accessible, and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

***You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the Global Offering or information released by us in connection with the CDR Offering.***

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the Global Offering. Prior to the publication of this document, there has been press and media coverage regarding us, the Global Offering and the CDR Offering. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information disclosed by us in mainland China as part of the CDR Offering, for which we previously filed an application with the CSRC. On June 18, 2018, we submitted a letter to the CSRC stating that after due consideration, we would like to complete the Global Offering first and conduct a CDR Offering in mainland China at an appropriate time in the future. While the CDR Offering is not happening concurrently with the Global Offering, there continues to be press and media coverage regarding us, the Global Offering and the CDR Offering. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information. You should only rely upon the information contained in this prospectus, the application forms and any formal announcement made by us in Hong Kong in making your investment decision regarding our Class B Shares.