Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement and the listing document referred herein is for informational purposes only as required by the Rules Governing the Listing of Securities on the Stock Exchange and do not constitute an offer to sell or acquire or the solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

This announcement does not constitute an offer to sell or the solicitation of an offer to acquire, purchase or subscribe for any securities in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Neither this announcement nor anything herein forms the basis for any contract or commitment whatsoever. Neither this announcement nor any copy hereof may be taken into or distributed in the United States or other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended, or with any securities regulatory authority of any state of the United States or other jurisdiction and may not be offered or sold in the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the United States Securities Act of 1933, as amended, and applicable state or local securities laws. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements. The Company does not intend to make any public offering of securities in the United States.

Xiaomi Best Time International Limited

(incorporated in Hong Kong with limited liability)

US$800 MILLION 2.875% SENIOR BONDS DUE 2031

(Debt Stock Code: 40763)

AND

US$400 MILLION 4.100% SENIOR GREEN BONDS DUE 2051

(Debt Stock Code: 40764)

(collectively, the "Bonds")

unconditionally and irrevocably guaranteed by

XIAOMI CORPORATION

小米集团

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

(Stock Code: 1810; and Debt Stock Codes: 40209 and 40511)

PUBLICATION OF OFFERING MEMORANDUM

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Please refer to the offering memorandum dated July 7, 2021 (the "**Offering Memorandum**") appended herein in relation to the issuance of the Bonds. The Offering Memorandum is published in English only. No Chinese version of the Offering Memorandum has been published.

Notice to Hong Kong investors: Xiaomi Corporation (the "**Company**") and Xiaomi Best Time International Limited (the "**Issuer**") confirm that the Bonds are intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Stock Exchange on that basis. Accordingly, the Company and the Issuer confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong or elsewhere. Investors should carefully consider the risks involved.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Memorandum.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, July 15, 2021

As at the date of this announcement, the directors of Xiaomi Best Time International Limited are Mr. Lin Bin and Mr. Lam Sai Wai Alain.

As at the date of this announcement, the Board comprises Mr. Lei Jun as Chairman and Executive Director, Mr. Lin Bin as Vice-Chairman and Executive Director, Mr. Liu De as Executive Director, Mr. Liu Qin as Non-executive Director, and Dr. Chen Dongsheng, Prof. Tong Wai Cheung Timothy and Mr. Wong Shun Tak as Independent Non-executive Directors.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS UNDER RULE 144A UNDER THE SECURITIES ACT (AS DEFINED BELOW) OR (2) PERSONS OR ADDRESSEES OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (AS DEFINED BELOW)

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum (the "Offering Memorandum"). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Goldman Sachs (Asia) L.L.C., Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities plc, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, Morgan Stanley & Co. International plc, Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Bank of China Limited, China Construction Bank (Asia) Corporation Limited, ICBC International Securities Limited, AMTD Global Markets Limited and BOCOM International Securities Limited (collectively, the "Initial Purchasers") that (1) either (i) you and any customers you represent are outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and, to the extent you purchase the securities described in the attached Offering Memorandum you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or (ii) you are acting on behalf of, or you are, a qualified institutional buyer ("Qualified Institutional Buyer"), as defined in Rule 144A under the Securities Act, and (2) you consent to delivery of the attached Offering Memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers nor any of their respective employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached Offering Memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Memorandum.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer or guarantor of the securities or any Initial Purchaser to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers are licensed brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or their affiliates on behalf of the issuer and the guarantor in such jurisdiction.

You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions that You May Not Take: You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING MEMORANDUM

Xiaomi Best Time International Limited

(Incorporated in Hong Kong with limited liability)

US$800,000,000 2.875% Senior Bonds Due 2031
US$400,000,000 4.100% Senior Green Bonds Due 2051

unconditionally and irrevocably guaranteed by

XIAOMI CORPORATION
小米集团

(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)
(SEHK Stock Code : 1810)

Issue Price for the 2031 Bonds: 99.141% of principal amount
Issue Price for the 2051 Bonds: 98.994% of principal amount

The US$800,000,000 2.875% Senior Bonds due 2031 (the "2031 Bonds") and the US$400,000,000 4.100% Senior Green Bonds due 2051 (the "2051 Bonds" or the "Green Bonds," and together with the 2031 Bonds, the "Bonds" and each a "Series") will be issued by Xiaomi Best Time International Limited (the "Issuer"). The 2031 Bonds and the 2051 Bonds will bear interest at a rate of 2.875% and 4.100% per annum, respectively. Interest on the Bonds will accrue from July 14, 2021. Interest will be paid on the Bonds semi-annually in arrears on January 14 and July 14 of each year, beginning on January 14, 2022. Unless previously repurchased, canceled or redeemed, the 2031 Bonds and the 2051 Bonds will mature on July 14, 2031 and July 14, 2051 respectively.

The Bonds will be unconditionally and irrevocably guaranteed (the "Guarantee") by Xiaomi Corporation 小米集团 (the "Company" or the "Guarantor").

The Issuer may, at the Issuer's or the Company's option, redeem the Bonds at any time (in respect of the relevant Series of the Bonds), in whole but not in part, upon the occurrence of certain tax events. The Issuer may also, at the Issuer's or the Company's option, redeem the 2031 Bonds at any time prior to April 14, 2031, and the 2051 Bonds at any time prior to January 14, 2051 (in respect of the relevant Series of the Bonds), in whole or in part, at a redemption amount equal to the greater of (i) 100% of the principal amount of the applicable Bonds to be redeemed and (ii) the make-whole amount (as defined in the sections titled "Description of the 2031 Bonds" and "Description of the 2051 Bonds" of this offering memorandum, as applicable), plus in each case, accrued and unpaid interest on the applicable Bonds to be redeemed, if any, to, but not including, the redemption date. In addition, the Issuer may redeem the 2031 Bonds at any time on or after April 14, 2031 and the 2051 Bonds at any time on or after January 14, 2051 (in respect of the relevant Series of the Bonds), in whole or in part, at a redemption price equal to 100% of the principal amount of the applicable Bonds to be redeemed *plus* accrued and unpaid interest, if any, to, but not including, the date of redemption. Upon the occurrence of a Triggering Event (as defined in the sections titled "Description of the 2031 Bonds" and "Description of the 2051 Bonds" of this offering memorandum, as applicable), the Issuer will be required to make an offer to repurchase all or, at the holder's option, any part of the applicable Bonds of the relevant Series outstanding at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the applicable Bonds being repurchased to, but not including, the date of repurchase.

The Company has obtained from the NDRC (as defined herein) the Registration Certificate of Enterprise Foreign Debt Filing issued on February 9, 2021 and the Letter to Approve the Adjustment to the Registration Certificate of Enterprise Foreign Debt Filing issued on June 23, 2021. Within 10 PRC business days after the issue date of the Bonds, the Company intends to file with the NDRC the required information and documents on the issuance of the Bonds.

The Bonds will be the senior unsecured obligations of the Issuer, and will: rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Bonds; rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law); and be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor.

Investing in the Bonds involves risks. Furthermore, investors should be aware that (i) the Issuer is a special purpose vehicle established with the primary purpose to engage in financing activities, including the issuance and offering of the Bonds, and will be dependent on funds from the Guarantor to make payments under the Bonds and (ii) there are various other risks relating to the Bonds, the Issuer, the Guarantor and its subsidiaries, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Bonds. See "Risk Factors" beginning on page 13.

Application will be made to The Stock Exchange of Hong Kong Limited (the "SEHK") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK) (the "Professional Investors") only. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Bonds are intended for purchase by the Professional Investors only and will be listed on the SEHK on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong.

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Bonds on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer and the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Bonds and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other place. Accordingly, the Bonds and the Guarantee may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds and the Guarantee may be offered and sold only to (1) persons who are qualified institutional buyers ("Qualified Institutional Buyers") (as defined in Rule 144A under the Securities Act) purchasing for their own account or the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or (2) persons or addressees outside the United States in offshore transactions in reliance on Regulation S under the Securities Act, and in accordance with any other applicable law. Prospective purchasers are hereby notified that the seller of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see "Transfer Restrictions."

The Bonds are expected to be assigned a rating of "Baa2" by Moody's Investors Services, Inc. ("Moody's"), "BBB-" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") and "BBB" by Fitch Ratings Ltd. ("Fitch"). A rating is not a recommendation to buy, sell or hold the Bonds and may be subject to suspension, reduction or withdrawal at any time by Moody's, S&P or Fitch. A suspension, reduction or withdrawal of the rating assigned to the Bonds may adversely affect the market price of the Bonds.

It is expected that delivery of the Bonds will be made to investors in book-entry form through the facilities of Cede & Co. as nominee of The Depository Trust Company on or about July 14, 2021.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Goldman Sachs (Asia) L.L.C. **Credit Suisse** **J.P. Morgan**

Joint Lead Managers and Joint Bookrunners

China International Capital Corporation **CLSA** **Morgan Stanley** **Citigroup** **HSBC**

Bank of China **China Construction Bank (Asia)** **ICBC International** **AMTD** **BOCOM International**

Green Structuring Advisor

Goldman Sachs (Asia) L.L.C.

Offering Memorandum dated July 7, 2021.

NOTICE TO INVESTORS

This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, GOLDMAN SACHS (ASIA) L.L.C., AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, ON BEHALF OF THE INITIAL PURCHASERS, MAY PURCHASE AND SELL THE BONDS IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. THESE ACTIVITIES, IF UNDERTAKEN, WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE STABILIZING MANAGER, AND NOT FOR US OR ON OUR BEHALF.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Bonds. You should read this offering memorandum before making a decision whether to purchase the Bonds. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

UK MiFIR PRODUCT GOVERNANCE/Professional investors and ECPs only target market – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"), or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs REGULATION/PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union

(Withdrawal) Act 2018 (the "EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all persons (including all relevant persons (as defined in Section 309A(1) of the Securities and Futures Act, Chapter 289 of Singapore)) the classification of the Bonds as "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This offering memorandum has been prepared by the Issuer and the Company solely for use in connection with the proposed offering of the Bonds. The Issuer and the Company reserve the right to withdraw the offering of the Bonds at any time, and Goldman Sachs (Asia) L.L.C., Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities plc, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, Morgan Stanley & Co. International plc, Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Bank of China Limited, China Construction Bank (Asia) Corporation Limited, ICBC International Securities Limited, AMTD Global Markets Limited and BOCOM International Securities Limited (the "Initial Purchasers") reserve the right to reject any commitment to purchase the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. The Initial Purchasers and certain related entities may acquire a portion of the Bonds for their own accounts.

This offering memorandum is personal to the prospective investor to whom it has been delivered by the Initial Purchasers and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Bonds. Distribution of this offering memorandum to any person other than the prospective investor and those persons, if any, retained to advise that prospective investor with respect thereto is unauthorized, and any disclosure of its contents without the Issuer's prior written consent is prohibited. The prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make any photocopies of this offering memorandum.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Bonds from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions contained in the indentures governing the Bonds (the "Indentures") and other transaction documents described herein. The information provided is not all-inclusive. The market information in this offering memorandum has been obtained by the Issuer from publicly available sources deemed by it to be reliable. The Issuer has accurately reproduced certain information, and as far as the Issuer is aware and able to ascertain third-party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Notwithstanding any investigation that the Initial Purchasers may have conducted with respect to the information contained herein, the Initial Purchasers do not accept any liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by or on the Issuer's or the Company's behalf.

Each of the Issuer and the Company confirms that, after having made all reasonable inquiries, this offering memorandum contains all information with regard to it and the Bonds which is material to the offering and sale of the Bonds, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading in any material respect and that there are no omissions of any other facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading in any material respect. Each of the Issuer and the Company accepts responsibility for the accuracy of the information contained in this offering memorandum. To the best of our knowledge, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of this offering memorandum.

You should rely only on the information contained in this offering memorandum. The Issuer and the Company have not authorized anyone to provide you with information that is different. This offering memorandum may only be used where it is legal to sell the Bonds. The information in this document may only be accurate at the date of this offering memorandum. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in the Company's or the Issuer's affairs and those of each of their respective subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the SEHK for the purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Prospective investors hereby acknowledge that (i) they have not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with any investigation of the accuracy of such information or their investment decision and (ii) no person has been authorized to give any information or to make any representation concerning the Issuer, the Company, the Bonds or the Guarantee (other than as contained herein and information given by the Issuer's or the Company's duly authorized officers and employees, as applicable, in connection with investors' examination of the Issuer and the Company, and the terms of this offering) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer, the Company or the Initial Purchasers.

In making an investment decision, prospective investors must rely on their examination of the Issuer and the Company and the terms of this offering, including the merits and risks involved. Neither the Bonds nor the Guarantee has been approved or recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Bond or Guarantee offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation.

None of the Issuer, the Company or the Initial Purchasers, or any of its or their respective affiliates or representatives is making any representation to any offeree or purchaser of the Bonds offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. The Initial Purchasers have not independently verified the information contained in this offering memorandum. None of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar (each as defined below) or any of their respective holding companies, subsidiaries, affiliates, directors, officers, employees, representatives, agents or advisors or any person who controls any of them makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this offering memorandum. To the fullest extent permitted by law, none of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar accepts any responsibility for the contents of this offering memorandum or for any other statement made or purported to be made by the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar or on their behalf in connection with the Issuer and the Company or the issue and offering of the Bonds. Each of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement. Each prospective investor should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Bonds.

The distribution of this offering memorandum and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. Each purchaser of the Bonds must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Bonds or possesses or distributes this offering memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. See "Plan of Distribution" for a description of certain restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions.

The Company has certain duties under the Data Protection Act (As Revised) of the Cayman Islands (the "DPA") based on internationally accepted principles of data privacy. Prospective investors should note that, by virtue of making investments in the Bonds and the associated interactions with the Company and its affiliates and/or delegates, or by virtue of providing the Company with personal information on individuals connected with the investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents) such individuals will be providing the Company and its affiliates and/or delegates with certain personal information which constitutes personal data within the meaning of the DPA. The Company shall act as a data controller in respect of this personal data and its affiliates and/or delegates, may act as data processors (or data controllers in their own right in some circumstances). By investing in the Bonds, the holders of the Bonds (the "Bondholders") shall be deemed to acknowledge that they have read in detail and understood the Privacy Notice set out below and that such Privacy Notice provides an outline of their data protection rights and obligations as they relate to the investment in the Bonds. Oversight of the DPA is the responsibility of the Ombudsman's office of the Cayman Islands. Breach of the DPA by the Company could lead to enforcement action by the Ombudsman, including the imposition of remediation orders, monetary penalties or referral for criminal prosecution.

The purpose of this notice is to provide Bondholders with information on the Company's use of their personal data in accordance with the DPA. In the following discussion, "Company" refers to the Company and its affiliates and/or delegates, except where the context requires otherwise. By virtue of a Bondholder's associated interactions with the Company (including any subscription (whether past, present of future), including the recording of electronic communications or phone calls where applicable) or by virtue of a Bondholder otherwise providing the Company with personal information on individuals connected with the Bondholder as an investor (for example directors, trustees, employees, representatives, shareholders, investors, clients, beneficial owners or agents), the Bondholder will provide the Company with certain personal information which constitutes personal data within the meaning of the DPA ("Investor Data"). The Company may also obtain Investor Data from other public sources. Investor Data includes, without limitation, the following information relating to a Bondholder and/or any individuals connected with a Bondholder as an investor: name, residential address, email address, contact details, corporate contact information, signature, nationality, place of birth, date of birth, tax identification, credit history, correspondence records, passport number, bank account details, source of funds details and details relating to the Bondholder's investment activity.

In the Company's use of Investor Data, the Company will be characterized as a "data controller" for the purposes of the DPA. The Company's affiliates and delegates may act as "data processors" for the purposes of the DPA. If a Bondholder is a natural person, this will affect such Bondholder directly. If a Bondholder is a corporate investor (including, for these purposes, legal arrangements such as trusts or exempted limited partnerships) that provides the Company with Investor Data on individuals connected to such Bondholder for any reason in relation to such Bondholder's investment with the Company, this will be relevant for those individuals and such Bondholder should transmit the content of this Privacy Notice to such individuals or otherwise advise them of its content. The Company, as the data controller, may collect, store and use Investor Data for lawful purposes, including, in particular: (i) where this is necessary for the performance of the Company's rights and obligations under any subscription agreements or purchase agreements; (ii) where this is necessary for compliance with a legal and regulatory obligation to which the Company is subject (such as compliance with anti-money laundering and FATCA/CRS requirements); and/or (iii) where this is necessary for the purposes of the Company's legitimate interests and such interests are not overridden by the Bondholder's interests, fundamental rights or freedoms. Should the Company wish to use Investor Data for other specific purposes (including, if applicable, any purpose that requires a Bondholder's consent), the Company will contact the applicable Bondholders. In certain circumstances the Company and/or its authorized affiliates or delegates may be legally obliged to share Investor Data and other information with respect to a Bondholder's interest in the Company with the relevant regulatory authorities such as the Cayman Islands Monetary Authority or the Tax Information Authority. They, in turn, may exchange this information with foreign authorities, including tax authorities. The Company anticipates disclosing Investor Data to others who provide services to the Company and their respective affiliates (which may include certain entities located outside the Cayman Islands or the European Economic Area), who will process a Bondholder's personal data on the Company's behalf. Any transfer of Investor Data by the Company or its duly authorized affiliates and/or delegates outside of the Cayman Islands shall be in accordance with the requirements of the DPA. The Company and its duly authorized affiliates and/or delegates shall apply appropriate technical and organizational information security measures designed to protect against unauthorized or unlawful processing of Investor Data, and against accidental loss or destruction of, or damage to, Investor Data. The Company shall notify a Bondholder of any Investor Data breach that is reasonably likely to result in a risk to the interests, fundamental rights or freedoms of either such Bondholder or those data subjects to whom the relevant Investor Data relates.

AVAILABLE INFORMATION

At any time when we are neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to any holder of the Bonds, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of the Bonds for so long as any of the Bonds are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act.

CERTAIN DEFINED TERMS AND CONVENTIONS

In this offering memorandum, references to:

- "2027 Bonds" are to the US$855,000,000 zero coupon guaranteed convertible bonds due 2027 issued by the Issuer on December 17, 2020;
- "2030 Notes" are to the US$600,000,000 3.375% senior notes due 2030 issued by the Issuer on April 29, 2020;
- "AIoT" are to artificial intelligence of things, the combination of artificial intelligence technologies with the internet of things infrastructure;
- "AVC" are to Beijing All View Cloud Data Technology Co., Ltd., a third-party market research firm;
- "Company" and "Guarantor" are to Xiaomi Corporation 小米集团, an exempted company with limited liability incorporated under the laws of the Cayman Islands;
- "Canalys" are to Canalys, a third-party market research firm;
- "Class A Shares" are to class A ordinary shares in the share capital of the Company with a par value of US$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company's general meetings, save for resolutions with respect to any reserved matters as set out in the amended and restated memorandum and articles of association of the Company, in which case they shall be entitled to one vote per share;
- "Class B Shares" are to class B ordinary shares in the share capital of the Company with a par value of US$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings;
- "Eligible Projects" are to investments and expenditures made by the Group in assets and projects that are aligned with one or more of the project categories set forth in the "Use of Proceeds – Use of Proceeds for the Green Bonds";
- "we," "our," "us," "Group" or "Xiaomi" are to the Company, its subsidiaries, and its VIEs and their respective subsidiaries, unless the context indicates otherwise;
- "HK$" and "HK dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the People's Republic of China;
- "IDC" are to International Data Corporation, a third-party market research firm;
- "IoT" are to internet of things, the network of physical devices with information-sensing capabilities such as two-dimensional code reading, radio frequency identification, infrared sensors, global positioning systems and laser scanners to realize intelligent identification, positioning, tracking, monitoring and management;
- "iResearch" are to iResearch Consulting Group, a third-party market research firm;
- "Issuer" are to Xiaomi Best Time International Limited, a direct wholly-owned subsidiary of the Company, and a public company limited by shares incorporated under the laws of Hong Kong;
- "MAU" are to monthly active users, the number of devices that activate the app or operating system at least once during a given calendar month and, in the context of our MIUI forum, refers to the number of registered users logging in our MIUI forum at least once during a given calendar month;

- "MIUI" are to our proprietary operating system built on the Android kernel;
- "MOFCOM" are to the Ministry of Commerce of mainland China;
- "NDRC" are to the National Development and Reform Commission of mainland China;
- "Ordinary Shares" are to the Class B Shares, the Class A Shares and any fully-paid and non-assessable shares of any class or classes of the ordinary shares of the Company authorized after the issue date of the Bonds which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company;
- "PRC" are to the People's Republic of China, excluding, for purposes of this definition, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- "provinces" are to provinces and to provincial-level autonomous regions and municipalities in mainland China which are directly under the supervision of the central mainland China government;
- "RMB" or "Renminbi" are to the Renminbi, the official currency of mainland China;
- "SAFE" are to the State Administration of Foreign Exchange of mainland China;
- "SEHK" are to The Stock Exchange of Hong Kong Limited;
- "SFC" are to the Securities and Futures Commission of Hong Kong;
- "SKU" are to stock keeping unit;
- "System-on-Chip (SoC)" are to a circuit that integrates all components of a computer or other electronic systems;
- "TWS" are to true wireless stereo;
- "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America; and
- "VIE(s)" are to variable interest entity(ies).

Solely for your convenience, this offering memorandum contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of RMB6.5518 to US$1.00, the exchange rate set forth in the H.10 statistical release (the "Noon Buying Rate") of the Board of Governors of the Federal Reserve System of the United States (the "Federal Reserve Board") on March 31, 2021. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring us to rely on our own internally developed estimates regarding our industry, our position in the industry, our market and segment share and the market and segment shares of various industry participants based on experience, our own investigation of market conditions and our review of industry publications, including information made available to the public by our competitors. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Company, the Initial Purchasers or the Trustee or any of their respective holding companies, subsidiaries, affiliates, directors, officers, employees, representatives, agents or advisors or any person who controls any of them, and none of the Issuer, the Company, the Initial Purchasers or the Trustee or any of their respective holding companies, subsidiaries, affiliates, directors, officers, employees, representatives, agents or advisors or any person who controls any of them make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside of mainland China. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of the Issuer, the Company, the Group and the terms of the offering and the Bonds, including the merits and risks involved.

TABLE OF CONTENTS

PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated financial information as of and for the years ended December 31, 2018, 2019 and 2020 included in this offering memorandum have been extracted from the Guarantor's audited consolidated financial statements as of and for the years ended December 31, 2019 and 2020 (the "Audited Financial Statements") and our unaudited financial information as of and for the three months ended March 31, 2020 and 2021 included in this offering memorandum have been extracted from the Guarantor's unaudited financial information as of and for the three months ended March 31, 2021 (the "Interim Financial Results").

The Audited Financial Statements have been audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("PwC") and the Interim Financial Results have been reviewed by PwC, and are prepared in accordance with International Financial Reporting Standards ("IFRS"), which differ in certain respects from generally accepted accounting principles in the United States and in certain other countries. We have made no attempt to describe or quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of the Bonds and the financial information we present herein. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and accounting principles generally accepted in other countries, including the United States, and how those differences might affect the financial information presented herein.

This offering memorandum contains non-IFRS financial measures and ratios that are not required by, or presented in accordance with, IFRS, including adjusted net profit. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and the impact of certain investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating the Group's operating performance. However, the use of this particular non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies. Potential investors must exercise caution when using such unaudited figures to evaluate the financial condition and results of operations of the Company and its subsidiaries.

FORWARD-LOOKING STATEMENTS

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

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

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

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements due to a number of factors, including factors disclosed under "Risk Factors" and elsewhere in this offering memorandum.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this offering memorandum, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this offering memorandum are qualified by reference to this cautionary statement.

ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

The Company is incorporated under the laws of the Cayman Islands as an exempted company with limited liability. It is incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands exempted company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands has a less developed body of securities laws than the United States and provides less protection for investors. In addition, Cayman Islands companies do not have standing to sue before the federal courts of the United States.

A majority of the Company's assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us or these persons, or to enforce judgments obtained in U.S. courts against us or them, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors.

Maples and Calder (Hong Kong) LLP, our legal counsel as to Cayman Islands law, has advised us that there is uncertainty as to whether the courts of the Cayman Islands would (1) recognize or enforce judgments of U.S. courts obtained against us or our directors or officers that are predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state in the United States, or (2) entertain original actions brought in the Cayman Islands against us or our directors or officers that are predicated upon the federal securities laws of the United States or the securities laws of any state in the United States.

Maples and Calder (Hong Kong) LLP has informed us that although there is no statutory enforcement in the Cayman Islands of judgments obtained in the federal or state courts of the United States (and the Cayman Islands are not a party to any treaties for the reciprocal enforcement or recognition of such judgments), the courts of the Cayman Islands will, at common law, recognize and enforce a foreign monetary judgment of a foreign court of competent jurisdiction without any re-examination of the merits of the underlying dispute based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the liquidated sum for which such judgment has been given, provided such judgment (i) is given by a competent foreign court with jurisdiction to give the judgment, (ii) imposes a specific positive obligation on the judgment debtor (such as an obligation to pay a liquidated sum or perform a specified obligation), (iii) is final and conclusive, (iv) is not in respect of taxes, a fine or a penalty, and (v) was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands. There is uncertainty with regard to Cayman Islands law relating to whether a judgment obtained from the United States courts under civil liability provisions of the securities laws of the United States will be determined by the courts of the Cayman Islands as penal or punitive in nature. However, the Cayman Islands courts are unlikely to enforce a judgment obtained from the U.S. courts under civil liability provisions of the U.S. federal securities law if such judgment is determined by the courts of the Cayman Islands to give rise to obligations to make payments that are penal or punitive in nature. A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

Jingtian & Gongcheng, our counsel as to the laws of mainland China, has advised us that there is uncertainty as to whether the courts of China would (1) recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States, or (2) entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Jingtian & Gongcheng has further advised us that the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. Mainland China's courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. Mainland China does not have any treaties or other form of reciprocal arrangements with the United States or the Cayman Islands that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, courts in China will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of China's law or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a court in mainland China would enforce a judgment rendered by a court in the United States or in the Cayman Islands.

In addition, it will be difficult for holders of the Bonds to originate actions against us in China in accordance with mainland China's laws because we are incorporated under the laws of the Cayman Islands and it will be difficult to establish a connection to China for a mainland China's court to have jurisdiction as required under the PRC Civil Procedures Law.

The Issuer is incorporated in Hong Kong. We have been advised by our Hong Kong legal advisor, Skadden, Arps, Slate, Meagher & Flom, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon U.S. federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court, and then seeking summary or default judgment on the strength of the foreign judgment, provided that the foreign court is a court of competent jurisdiction, the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits. In addition, the Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment: (a) was obtained by fraud; (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time; (c) is contrary to public policy or natural justice; (d) is for penal damages; or (e) is based on foreign penal, revenue or other public law.

SUMMARY

This summary may not contain all of the information that may be important to you. You should read this entire offering memorandum before making an investment decision to purchase the Bonds.

Business Overview

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

Our Business Model

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

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

Hardware

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention.

"Smartphone x AIoT" is at the core of our strategy. Smartphones will remain as the cornerstone of our business, while our AIoT platform will revolve around smartphones to build up a smart living ecosystem, enlarge our user base and enhance our user experience. Smartphones combined with our AIoT platform will create multiplier effects to strengthen the economic moats for our business.

We have adopted a dual-brand strategy for our smartphones, with Xiaomi focusing on pioneering advanced technologies and establishing itself in the mid- to high-end markets, and Redmi brand positioned to pursue the ultimate price-performance ratio.

Besides smartphones, we also focus on designing and developing a range of cutting-edge in-house IoT hardware products, including laptops, smart TVs, AI speakers, smart routers, smart watches, smart air conditioners, smart refrigerators and other large appliances. For more information on our hardware products, see "Business – Hardware."

We also curate a wide range of additional IoT products through investments in our ecosystem partners over the years. This has enabled us to build one of the world's leading consumer IoT platforms. Xiaomi is the number one consumer IoT platform globally in terms of the number of connected devices as of December 31, 2020, excluding smartphones and laptops, according to iResearch. As of March 31, 2021, there were 351.1 million connected IoT devices (excluding smartphones and laptops) on our AIoT platform. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

New Retail

Our highly efficient omni-channel new retail distribution platform is a core component of our strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our user experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with our users. In recent years, we have continually expanded our offline retail network through our Mi Home stores, among others. Moreover, to establish our offline new retail presence in lower-tier cities and rural areas of mainland China, we have built a sizable authorized store network. As of April 30, 2021, we had established over 5,500 offline retail stores in mainland China. Our offline retail network allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base. For more information on our new retail platform, see "Business – New Retail."

Internet Services

We provide internet services to give our users a complete mobile internet experience. In March 2021, we had 425.3 million MAU globally and 118.6 million MAU in mainland China on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between smart hardware and internet services enable us to provide our users with a better user experience. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit. For more information on our internet services, see "Business – Internet Services."

Network Effects

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

This business model has led to powerful network effects across our platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we are set to deliver a better and richer user experience, which will, in turn, attract more users to our platform.

Our Business Segment Revenues

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

	For the year ended December 31,							**For the three months ended March 31,**				
	2018		**2019**		**2020**			**2020**		**2021**		
	RMB	**%**	**RMB**	**%**	**RMB**	**US$**	**%**	**RMB**	**%**	**RMB**	**US$**	**%**
								(Unaudited)		**(Unaudited)**		
	(in millions, except percentages)											
Smartphones	113,800.4	65.1	122,094.9	59.3	152,190.9	23,228.9	61.9	30,324.7	61.0	51,491.0	7,859.1	67.0
IoT and lifestyle products	43,816.9	25.1	62,088.0	30.2	67,410.5	10,288.9	27.4	12,984.2	26.1	18,243.3	2,784.5	23.7
Internet services	15,955.6	9.1	19,841.6	9.6	23,755.3	3,625.8	9.7	5,900.7	11.9	6,570.8	1,002.9	8.5
Others	1,342.5	0.7	1,814.2	0.9	2,508.9	382.8	1.0	492.6	1.0	577.1	88.0	0.8
Total	**174,915.4**	**100.0**	**205,838.7**	**100.0**	**245,865.6**	**37,526.4**	**100.0**	**49,702.2**	**100.0**	**76,882.2**	**11,734.5**	**100.0**

Our Global Operations

In 2020 and the first quarter of 2021, we have kept up our strong momentum in major markets around the world. In 2020, our revenue from overseas markets increased 34.1% year-over-year to RMB122.4 billion (US$18.7 billion), accounting for 49.8% of our total revenue. As of March 31, 2021, our products were sold in more than 100 countries and regions around the world. In the first quarter of 2021, our revenue from overseas markets increased 50.6% year-over-year to RMB37.4 billion (US$5.7 billion), accounting for 48.7% of our total revenue. According to Canalys, in terms of smartphone shipments in the first quarter of 2021, we ranked No. 1 in 12 countries and regions and among top five in 62 countries and regions globally. As overseas markets are a strong growth driver for us, we will continue to invest heavily in them, expand our sales channels through strengthening our cooperation with local partners, and provide our competitive products and services to more countries and regions. For more information on our global operations, see "Business – Global Operations."

Competitive Strengths

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

- Triathlon business model: We believe the three components of our unique business model are complementary to each other, creating robust barriers to entry for potential competitors and enabling us to create a sustainable business model that cannot be easily replicated;
- Scale and leadership: We have achieved leading positions in our major products and services categories;
- Brand and passionate users: We have created an internationally renowned brand through our dedication to providing our users with high-quality products and services, which has been recognized by many global honors and accolades;
- Innovation and design: We have amassed a strong track record in innovation and design;
- Focus on technology: Technology innovation builds a solid foundation for Xiaomi's sustainable growth;
- Global: We have successfully expanded overseas in recent years;
- Efficiency: We operate with a relentless focus on operational efficiency in order to realize overall cost savings, which we return to our users;
- Strong financial profile: We have demonstrated strong profitability and generate positive cash flows from our operations, with a negative cash conversion cycle; and
- Founders and management team: Xiaomi is led by our Founder, Chairman and Chief Executive Officer, Lei Jun, a highly respected entrepreneur and angel investor.

Our Strategies

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

- Unwavering focus on technological innovation, quality, design and user experience;
- Execute our core Smartphone x AIoT strategy;
- Maintain relentless efficiency;
- Enrich our internet services;
- Broaden our overseas expansion; and
- Invest in and expand our ecosystem.

Environment and Society – Our Sustainability Approach

From the moment our Company was founded in 2010, we have been committed to improving the world we live in. From the start, we have worked to embed commitment to sustainability into our strategy, our business processes and decision-making. Sustainability is core to our project planning and operational activities. We aim to provide our products and services in a responsible manner – in a way that balances short- and long-term interests, and that integrates economic, environmental, and social considerations. In 2020, we joined the United Nations Global Compact and committed to its ten stipulated principles of corporate responsibility.

At the heart of Xiaomi is our purpose to enhance people's lives through technology. We do this by keeping our prices honest, by engaging our customers in a friendly way, and by contributing to sustainable development. We regularly conduct materiality analyzes to determine the issues that we should focus on in our sustainability strategy. When deciding on our strategy, we take into account the views of our stakeholders, the issues determined to be material by our analysis and the wider international sustainable development frameworks, such as the United Nations Sustainable Development Goals.

From these, we determine that our sustainability strategy and contributions to sustainable development should focus on the following five pillars:

- Our products and customers;
- Our environment management;
- Our people;
- Our supply chain; and
- Our community contributions.

PRC Onshore Bond Issuance

On July 7, 2021, Xiaomi Communications Co., Ltd. (小米通訊技術有限公司) (the "Onshore Issuer"), a domestic wholly-owned subsidiary of the Company, priced the short-term technological innovation corporate bonds (Series 1) (科技創新短期公司債券（第一期）) on the Shanghai Stock Exchange in the principal amount of no more than RMB1 billion with a tenor of one year and an interest rate of 2.90%. The use of the net proceeds from the bond offering by the Onshore Issuer will include, but not limited to, supplementing working capital and repaying loans in relation to investments in research and development and advanced manufacturing.

Corporate Information

The Company was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability. In July 2018, the Company publicly offered its shares for listing on the Main Board of the SEHK under stock code 1810. The Company's principal place of business is located at Xiaomi Campus, Anningzhuang Road, Haidian District, Beijing, The People's Republic of China. Its registered office is located at Maples Corporate Services Limited PO Box 309 Ugland House, Grand Cayman, KY1-1104 Cayman Islands. Our website is *www.mi.com*. Information contained on our website does not constitute part of this offering memorandum.

For information on the Issuer, Xiaomi Best Time International Limited, see "Description of the Issuer."

SUMMARY FINANCIAL INFORMATION

The following summaries of our historical consolidated income statement data for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021, our historical consolidated balance sheet data as of December 31, 2018, 2019 and 2020 and as of March 31, 2021, and our historical consolidated cash flows data for the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2020 and 2021 have been derived from our Audited Financial Statements and Interim Financial Results, respectively, each as included elsewhere in this offering memorandum. You should read this section in conjunction with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the notes to those statements included elsewhere in this offering memorandum. The historical results are not necessarily indicative of the results of operations to be expected in the future.

Consolidated Summary Income Statement Data of the Company

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in thousands, except percentages)											
Revenue	**174,915,425**	**100.0**	**205,838,682**	**100.0**	**245,865,633**	**37,526,425**	**100.0**	**49,702,167**	**100.0**	**76,882,163**	**11,734,510**	**100.0**
Cost of sales	**(152,723,486)**	**(87.3)**	**(177,284,649)**	**(86.1)**	**(209,113,771)**	**(31,916,995)**	**(85.1)**	**(42,143,710)**	**(84.8)**	**(62,720,932)**	**(9,573,084)**	**(81.6)**
Gross profit	**22,191,939**	**12.7**	**28,554,033**	**13.9**	**36,751,862**	**5,609,430**	**14.9**	**7,558,457**	**15.2**	**14,161,231**	**2,161,426**	**18.4**
Selling and marketing expenses	(7,993,072)	(4.6)	(10,378,073)	(5.0)	(14,539,400)	(2,219,146)	(5.9)	(2,624,873)	(5.3)	(4,163,475)	(635,470)	(5.4)
Administrative expenses	(12,099,078)	(6.9)	(3,103,901)	(1.5)	(3,746,449)	(571,820)	(1.5)	(781,533)	(1.6)	(987,652)	(150,745)	(1.3)
Research and development expenses	(5,776,826)	(3.3)	(7,492,554)	(3.6)	(9,256,139)	(1,412,763)	(3.8)	(1,870,984)	(3.8)	(3,011,991)	(459,720)	(3.9)
Fair value changes on investments measured at fair value through profit or loss	4,430,359	2.5	3,813,012	1.9	13,173,479	2,010,666	5.4	347,846	0.7	2,063,207	314,907	2.7
Share of (losses)/gains of investments accounted for using the equity method	(614,920)	(0.3)	(671,822)	(0.3)	1,380,904	210,767	0.6	130,738	0.3	8,989	1,372	0.0
Other income	844,789	0.5	1,265,921	0.6	642,930	98,130	0.3	73,727	0.1	152,053	23,208	0.2
Other gains/(losses), net	213,281	0.1	(226,399)	(0.1)	(372,458)	(56,848)	(0.2)	(510,190)	(1.0)	(64,699)	(9,875)	(0.1)
Operating profit	**1,196,472**	**0.7**	**11,760,217**	**5.7**	**24,034,729**	**3,668,416**	**9.8**	**2,323,188**	**4.7**	**8,157,663**	**1,245,103**	**10.6**
Finance income/(expenses), net	216,373	0.1	402,429	0.2	(2,401,297)	(366,510)	(1.0)	130,901	0.3	909,217	138,773	1.2
Fair value changes of convertible redeemable preferred shares	12,514,279	7.2	–	–	–	–	–	–	–	–	–	–
Profit before income tax	**13,927,124**	**8.0**	**12,162,646**	**5.9**	**21,633,432**	**3,301,906**	**8.8**	**2,454,089**	**4.9**	**9,066,880**	**1,383,876**	**11.8**
Income tax expenses	(449,377)	(0.3)	(2,059,696)	(1.0)	(1,320,722)	(201,582)	(0.5)	(294,195)	(0.6)	(1,277,973)	(195,057)	(1.7)
Profit for the year/period	**13,477,747**	**7.7**	**10,102,950**	**4.9**	**20,312,710**	**3,100,324**	**8.3**	**2,159,894**	**4.3**	**7,788,907**	**1,188,819**	**10.1**
Non-IFRS Measure: Adjusted net profit (unaudited)[(1)]	**8,554,548**	**4.9**	**11,532,296**	**5.6**	**13,006,363**	**1,985,159**	**5.3**	**2,300,510**	**4.6**	**6,069,281**	**926,353**	**7.9**

Note:

(1) We define adjusted net profit as profit for the period, as adjusted by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value changes on investments, (iv) amortization of intangible assets resulting from acquisitions, (v) changes of value of financial liabilities to fund investors, and (vi) income tax effects of Non-IFRS adjustments. Adjusted net profit is not a measure required by, or presented in accordance with IFRS. The use of

adjusted net profit has limitation as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under IFRS. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-IFRS Measure: Adjusted Net Profit" for details.

Consolidated Summary Balance Sheet Data of the Company

	As of December 31,				As of March 31,	
	2018	2019	2020		2021	
	RMB	RMB	RMB	US$	RMB	US$
					(Unaudited)	
				(in thousands)		
Total non-current assets	39,215,389	46,090,121	77,396,988	11,813,088	86,807,622	13,249,431
Total current assets	106,012,561	137,539,086	176,282,835	26,906,016	190,266,214	29,040,296
Total assets	**145,227,950**	**183,629,207**	**253,679,823**	**38,719,104**	**277,073,836**	**42,289,727**
Total non-current liabilities	12,037,663	9,790,826	21,739,380	3,318,077	25,017,560	3,818,425
Total current liabilities	61,940,158	92,180,705	107,926,928	16,472,868	119,800,930	18,285,193
Total liabilities	**73,977,821**	**101,971,531**	**129,666,308**	**19,790,945**	**144,818,490**	**22,103,618**
Net assets	**71,250,129**	**81,657,676**	**124,013,515**	**18,928,159**	**132,255,346**	**20,186,109**
Share capital	377	388	409	62	410	63
Reserves	71,322,608	81,330,186	123,691,287	18,878,978	131,935,957	20,137,360
Non-controlling interests	(72,856)	327,102	321,819	49,119	318,979	48,686
Total equity	**71,250,129**	**81,657,676**	**124,013,515**	**18,928,159**	**132,255,346**	**20,186,109**
Total equity and liabilities	**145,227,950**	**183,629,207**	**253,679,823**	**38,719,104**	**277,073,836**	**42,289,727**

Consolidated Summary Cash Flows Data of the Company

	For the year ended December 31,				For the three months ended March 31,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(Unaudited)	(Unaudited)	
				(in thousands)			
Net cash (used in)/generated from operating activities	(1,414,571)	23,810,354	21,878,500	3,339,311	(8,205,339)	1,453,986	221,922
Net cash (used in)/generated from investing activities	(7,508,040)	(31,570,136)	(17,678,852)	(2,698,320)	8,210,391	(25,546,673)	(3,899,184)
Net cash generated from/(used in)/ financing activities	26,574,172	3,121,238	26,215,568	4,001,277	(1,231,329)	3,583,567	546,959
Net increase/(decrease) in cash and cash equivalents	17,651,561	(4,638,544)	30,415,216	4,642,269	(1,226,277)	(20,509,120)	(3,130,303)
Cash and cash equivalents at beginning of the year/period	11,563,282	30,230,147	25,919,861	3,956,144	25,919,861	54,752,443	8,356,855
Effects of exchange rate changes on cash and cash equivalents	1,015,304	328,258	(1,582,634)	(241,557)	380,103	36,183	5,523
Cash and cash equivalents at end of the year/period	30,230,147	25,919,861	54,752,443	8,356,855	25,073,687	34,279,506	5,232,075

THE OFFERING

The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering memorandum. For a more complete description of the terms of the Bonds, see "Description of the 2031 Bonds" and "Description of the 2031 Bonds" in this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in "Description of the 2051 Bonds" and "Description of the 2051 Bonds."

Issuer	Xiaomi Best Time International Limited, a public company limited by shares incorporated in Hong Kong.
Guarantor/The Company	Xiaomi Corporation 小米集团, an exempted limited liability company incorporated in the Cayman Islands.
Bonds Offered	US$800,000,000 aggregate principal amount of 2.875% senior bonds due 2031 (the "2031 Bonds"); and
	US$400,000,000 aggregate principal amount of 4.100% senior green bonds due 2051 (the "2051 Bonds" or the "Green Bonds" and together with the 2031 Bonds, the "Bonds" and each a "Series")
Guarantee	Payment of principal of, interest and all other amounts payable on, the Bonds will be irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price	2031 Bonds: 99.141% of aggregate principal amount to be issued; and
	2051 Bonds: 98.994% of aggregate principal amount to be issued.
Maturity Dates	2031 Bonds: July 14, 2031
	2051 Bonds: July 14, 2051
Interest Payment Dates	The interest payment dates will be January 14 and July 14, commencing January 14, 2022
Interest	The 2031 Bonds will bear interest from July 14, 2021 at the rate of 2.875% per annum, payable semi-annually in arrears from January 14, 2022. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.
	The 2051 Bonds will bear interest from July 14, 2021 at the rate of 4.100% per annum, payable semi-annually in arrears from January 14, 2022. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

Issues of Additional Bonds	The Issuer may, from time to time, without the consent of the holders of the Bonds, issue additional bonds having the same terms and conditions as the previously outstanding Bonds in all respects (or in all respects), except for the issue date, the issue price, and the first payment of interest (the "Additional Bonds"). Additional Bonds issued in this manner may be consolidated with and form a single series with the previously outstanding Bonds; provided that such Additional Bonds must not have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Bonds unless such Additional Bonds are fungible with the outstanding Bonds for U.S. federal income tax purposes.
Ranking of the Bonds	The Bonds will constitute senior unsecured obligations of the Issuer. The Bonds will rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Bonds and rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Bonds will be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor.
Ranking of the Guarantee	The Guarantee will constitute a direct, unconditional, senior and unsecured obligation of the Guarantor. The payment obligations of the Guarantor under the Guarantee will rank senior in right of payment to all of the Guarantor's existing and future obligations expressly subordinated in right of payment to the Guarantee and rank at least equal in right of payment with all of the Guarantor's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Guarantee will be effectively subordinated to all the Guarantor's present and future secured obligations to the extent of the value of the collateral securing such obligations, and be structurally subordinated to all the present and future obligations (whether secured or unsecured) of its Subsidiaries and Consolidated Affiliated Entities.
Certain Covenants	The Guarantor will undertake in the Indentures not to, and not to permit the Principal Controlled Entities and the Issuer to, create or permit to have outstanding security interests and not permit the Issuer to consolidate, merge or convey, transfer or lease its properties and assets substantially as an entirety unless certain conditions are satisfied. The Bonds and the Indentures do not otherwise restrict or limit the Guarantor's or the Issuer's ability to incur additional indebtedness by itself or its subsidiaries or its ability to enter into transactions with, or to pay dividends or make other payments to, affiliates. See

	"Description of the 2031 Bonds – Limitation on Liens," "Description of the 2051 Bonds – Limitation on Liens," "Description of the 2031 Bonds – Consolidation, Merger and Sale of Assets" and "Description of the 2051 Bonds – Consolidation, Merger and Sale of Assets."
Payment of Additional Amounts	In the event that the Issuer or the Guarantor (or an applicable successor entity) is required to deduct or withhold from payments on the Bonds or under the Guarantee Taxes imposed or levied by or within the Relevant Jurisdiction (or the Successor Jurisdiction), the Issuer or the Guarantor (or such successor entity), as the case may be, will, subject to certain exceptions, pay such Additional Amounts as will result, after deduction or withholding of such Taxes, in the receipt by each holder of any Bonds of such amounts that would have been received by such holder had no such deduction or withholding been required. See "Description of the 2031 Bonds – Payment of Additional Amounts" and "Description of the 2051 Bonds – Payment of Additional Amounts."
Optional Redemption	The Issuer may, at the Issuer's or the Guarantor's option, redeem the 2031 Bonds at any time prior to April 14, 2031 and the 2051 Bonds at any time prior to January 14, 2051, (in respect of the relevant Series of the Bonds) in whole or in part, at a redemption amount equal to the greater of (i) 100% of the principal amount of the applicable Bonds to be redeemed and (ii) the make-whole amount (as defined in the sections titled "Description of the 2031 Bonds" and "Description of the 2051 Bonds" of this offering memorandum, as applicable), plus in each case, accrued and unpaid interest, if any, to, but not including, the applicable redemption date. See "Description of the 2031 Bonds – Optional Redemption" and "Description of the 2051 Bonds – Optional Redemption." The Issuer may redeem the 2031 Bonds at any time on or after April 14, 2031 and the 2051 Bonds at any time on or after January 14, 2051, (in respect of the relevant Series of the Bonds) in whole or in part, at a redemption price equal to 100% of the principal amount of the applicable Bonds to be redeemed, plus accrued and unpaid interest, if any, to, but not including, the date of redemption. See "Description of the 2031 Bonds – Optional Redemption" and "Description of the 2051 Bonds – Optional Redemption."
Tax Redemption	The Bonds may be redeemed at any time, at the Issuer or the Guarantor's option (in respect of the relevant Series of the Bonds), in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including,

	the redemption date in the event the Issuer or the Guarantor (or an applicable successor entity) becomes obligated to pay Additional Amounts in respect of the applicable Bonds as a result of certain changes in tax law. See "Description of the 2031 Bonds – Tax Redemption" and "Description of the 2051 Bonds – Tax Redemption."
Repurchase upon Triggering Event	Upon the occurrence of a Triggering Event (as defined in "Description of the 2031 Bonds – Repurchase Upon Triggering Event" and "Description of the 2051 Bonds – Repurchase Upon Triggering Event", as applicable), the Issuer will be required to make an offer to repurchase all or, at the holder's option, any part of the Bonds of the relevant Series outstanding at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the applicable Bonds being repurchased to, but not including, the date of purchase. See "Description of the 2031 Bonds – Repurchase upon Triggering Event" and "Description of the 2051 Bonds – Repurchase upon Triggering Event."
Transfer Restrictions	The Bonds and the Guarantee have not been and will not be registered under the Securities Act, any state securities laws in the United States or the securities laws of any other jurisdiction. Accordingly, the Bonds and the Guarantee may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds and the Guarantee may be offered and sold only to (1) persons who are Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) purchasing for their own account or the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or (2) persons or addressees outside the United States in offshore transactions in reliance on Regulation S under the Securities Act, and in accordance with any other applicable law. See "Transfer Restrictions."
Use of Proceeds	The estimated net proceeds of the sale of the 2031 Bonds after deducting the Initial Purchasers' discount and estimated pro rata expenses payable in connection with the offering of such Bonds will be approximately US$789.0 million, which we intend to use for general corporate purposes. The estimated net proceeds of the sale of the Green Bonds after deducting the Initial Purchasers' discount and estimated pro rata expenses payable in connection with the offering of the Green Bonds will be approximately US$392.8 million. We intend to use this amount or an

equivalent amount within 36 months to finance or refinance, in whole or in part, one or more of our new or existing Eligible Projects.

Our management will have significant flexibility and discretion to apply the net proceeds of this offering subject to the applicable PRC laws and regulations. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this offering memorandum subject to the applicable PRC laws and regulations.

See "Use of Proceeds" for more information.

Governing Law

The Bonds, the Guarantee and the Indentures will be governed by, and construed in accordance with, the laws of the State of New York.

Denomination, Form and Registration

The Bonds will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

The Bonds offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global bonds in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company ("DTC").

The Bonds offered to persons or addresses outside the United States in reliance on Regulation S will be represented by one or more global bonds in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of DTC for the respective accounts of Euroclear Bank SA/NV ("Euroclear"), and Clearstream Banking S.A. ("Clearstream").

DTC will credit the account of each of its participants, including Euroclear and Clearstream, with the principal amount of Bonds being purchased by or through such participant. Beneficial interests in the global bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

Ratings

The Bonds are expected to be rated "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. Security ratings are not recommendations to buy, sell or hold the Bonds. Ratings are subject to revision or withdrawal at any time by the rating agency.

Risk Factors	See "Risk Factors" and the other information in this offering memorandum for a discussion of factors that should be carefully considered before deciding to invest in the Bonds.
Listing	Application will be made to the SEHK for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only as described in this offering memorandum.
Delivery of the Bonds	The Issuer expects to make delivery of the Bonds, against payment in same-day funds on or about July 14, 2021, which will be the fifth business day following the date of this offering memorandum referred to as "T+5." You should note that initial trading of the Bonds may be affected by the T+5 settlement. See "Plan of Distribution."
Trustee	Citicorp International Limited
Paying Agent, Transfer Agent and Registrar	Citibank, N.A., London Branch
Clearing System and Settlement	The 2031 Bonds and the 2051 Bonds have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the 2031 Bonds and the 2051 Bonds is set forth below:

2031 Bonds sold under	**Rule 144A**	**Regulation S**
CUSIP	98422H AC0	Y77108 AD3
ISIN	US98422HAC07	USY77108AD33
Common Code	236319164	236319571

2051 Bonds sold under	**Rule 144A**	**Regulation S**
CUSIP	98422H AE6	Y77108 AF8
ISIN	US98422HAE62	USY77108AF80
Common Code	236319695	236319725

Only Bonds evidenced by a global bond have been accepted for clearance through Euroclear, Clearstream and DTC.

RISK FACTORS

You should carefully consider the risks described below and the other information contained in this offering memorandum before making an investment decision. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the events described below should occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds, and you could lose all or part of your investment.

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

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

Our business has grown substantially in recent years, and we expect continued growth in our business, revenues and number of employees.

In addition, as we increase our product and service offerings, we will need to work with a larger number of partners efficiently and maintain and expand mutually beneficial relationships with our existing and new partners. We also need to continually 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 to support our expanding operations or that our strategies and new business initiatives will be executed successfully. For example, in March 2021, we announced our plans to establish a wholly-owned subsidiary to manage our smart electric vehicle business. The initial phase of the investment will be RMB10 billion, with the total investment amount over the course of the next 10 years estimated to be US$10 billion. However, as a new entrant into the smart electric vehicle industry, we have a limited operating history and face significant challenges with respect to, among other things, our ability to design and produce reliable and quality vehicles and maintain technology infrastructure. In addition, we may incur significant costs to develop our smart electric vehicle business, including research and development expenses and providing charging solutions. We may never generate revenue that is significant or large enough to achieve profitability and, even if we do, may not be able to sustain or increase profitability on a quarterly or annual basis. 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 Western Europe. 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;
- increasing brand awareness through marketing and brand promotion activities; and
- preserving our reputation and goodwill in the event of any negative publicity on product quality, service, price or authenticity, or other issues affecting us or other internet companies.

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

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

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

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

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

- despite our continual research, monitoring and analysis of user needs, we may be unable to identify and meet evolving user demands;
- we may not be able to timely develop and introduce new or updated products and services, or the new or updated products and services we introduce may not be favorably received by users;
- we may fail to update existing technology or develop new technology in time to stay ahead or abreast of market advances;
- we may not be able to continue to successfully drive organic growth of users through word-of-mouth referrals and in-app cross-promotion, which may cause the growth of our user base to slow down or stall or require us to increase our promotion and advertising spending or devote additional resources to acquire users;
- we may be unable to prevent or combat inappropriate use of our products and services, which may lead to negative public perception of us and damage our brand or reputation;
- we may encounter technical or other problems that prevent our products and services from operating in a smooth and reliable manner or otherwise adversely affect user experience;
- our competitors may launch or develop similar or disruptive products and services with a 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 PRC 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, or PII, with respect to our users and employees. We are subject to PRC and international laws, rules, policies and other obligations 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 overseas 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 laws, rules, policies and other obligations could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business. Our business operations and sales in Europe have grown significantly in recent years. Legal developments in Europe have created compliance obligations and uncertainty regarding certain transfers of personal data. For example, the General Data Protection Regulation, or GDPR, which went into effect in the European Union, or 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 that could cause us to change our business practices and significantly increased financial penalties for non-compliance. Additionally, California has enacted legislation that has been dubbed the first "GDPR-like" law in the U.S. Known as the California Consumer Privacy Act, or CCPA, it creates new individual privacy rights for consumers (as that word is broadly defined in the law) and places increased privacy and security obligations on entities handling personal data of consumers or households. The CCPA, which went into effect on January 1, 2020, requires covered companies to provide new disclosures to California consumers, and provides such consumers new ways to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the U.S., which could increase our potential liability and adversely affect our business.

We make statements about our use and disclosure of PII through our privacy policy, information provided on our internal platform and press statements. Any failure by us to comply with these public statements or with other domestic or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others. In addition to reputational impacts, penalties could include ongoing audit requirements and significant legal liability. 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. As our products, services and processes become increasingly interconnected and the information we process, use and restore become increasingly diversified to include multimedia content including video footage and image, the likelihood of such concerns will increase accordingly as well. 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 Class B 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 may not be able to sustain our historical growth.

We have experienced rapid growth since we commenced our business in 2010. Our total revenues increased from RMB174.9 billion in 2018 to RMB205.8 billion in 2019 and further to RMB245.9 billion (US$37.5 billion) in 2020. Our total revenues also increased by 54.7% from RMB49.7 billion for the three months ended March 31, 2020 to RMB76.9 billion (US$11.7 billion) for the three months ended March 31, 2021. 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 in mainland China and globally.

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.

For the years ended December 31, 2018, 2019 and 2020 and for the three months ended March 31, 2021, our smartphones segment contributed 65.1%, 59.3%, 61.9% and 67.0% of our total revenues, respectively. Although we have been diversifying our revenue streams by expanding our internet services, as well as the sale of IoT and lifestyle products, 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.

Our mainland China and overseas businesses and results of operations may be materially and adversely affected by the COVID-19 outbreak.

Since late January 2020, the COVID-19 pandemic has prompted governments and businesses to take unprecedented measures, such as restrictions on travel and business operations, temporary closures of businesses, and quarantines and shelter-in-place orders. The COVID-19 pandemic has significantly curtailed global economic activity and caused significant volatility and disruption in global financial markets. Following the initial outbreak of the pandemic, our operations in mainland China and overseas markets have experienced significant disruptions. However, we were comparatively less impacted due to our strength in online channels.

As of the date of this offering memorandum, as business restrictions have been largely lifted in mainland China except for certain areas, our sales and production capacity have recovered tangibly to our normal levels. Our online and offline business, in particular, in overseas markets, continued to be affected by the COVID-19 pandemic, with many of our retail stores, as well as channel partner points of sale, temporarily closed at various times, and a number of our employees working remotely. We have reopened some of our offices and retail stores, subject to operating restrictions to protect public health and the health and safety of employees and customers, and we continue to work on safely reopening the remainder of its offices and retail stores, subject to local rules and regulations.

The pandemic is still affecting countries and regions around the world with new strains and outbreaks due to the slow vaccination rollout, especially in India. We are closely monitoring and assessing its impact, which will likely decrease the overall consumption in the affected countries. In addition, our internet services, particularly our advertising business, also could potentially be impacted if our advertising customers decrease their budgets. These developments are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19, the actions to contain COVID-19 or treat its impact, as well as the overall impact on the financial market and economy in China and globally.

Our businesses and results of operations may be materially and adversely affected by political turmoil, war, terrorism, public health issues, natural disasters and other disruptive events.

Political turmoil, war, terrorism, public health issues, natural disasters and other disruptive events 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 PRC companies, political instability and social unrest in countries and regions in which we operate, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to make and deliver products to our users, or to receive components or products from our suppliers and ecosystem partners, and create delays and inefficiencies in our supply chain. While our suppliers are required to maintain safe working environments and operations, an industrial accident could occur and could result in disruption to our business and harm to our reputation. Should major public health issues, including pandemics, arise, we could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of our outsourcing partners, component suppliers and ecosystem partners. In the event of a natural disaster, we could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

Our business is subject to the risks of overseas operations.

As we have successfully expanded our overseas businesses in recent years, we derive an increasingly significant portion of our revenues from our overseas operations. We generated 40.0%, 44.3%, 49.8% and 48.7% of our revenues in overseas markets in 2018, 2019, 2020 and the first quarter of 2021, respectively. As of March 31, 2021, our products were sold in more than 100 countries and regions. We face risks associated with expanding into an increasing number of markets where we have limited or no experience, we may be less well-known or have fewer local resources and we may need to localize our business practices, culture and operations. We may also face protectionist policies that could, among other things, hinder our ability to execute our business strategies and put us at a competitive disadvantage relative to domestic companies in other jurisdictions. The expansion of our overseas and cross-border businesses will also expose us to risks and challenges inherent in operating businesses globally, including:

- increased resources requirements to manage regulatory compliance across our overseas businesses;
- failure to attract and retain capable talent with international perspectives who can effectively manage and operate local businesses;
- uncertain enforcement of our intellectual property rights in different jurisdictions;
- compliance with privacy laws and data security laws, including heightened restrictions and barriers on the transfer of data between different jurisdictions;
- uncertain, complex and potentially adverse and conflicting customs, import/export laws, currency controls, anti-dumping rules tax rules and regulations or other trade barriers or restrictions, which could negatively affect margins on sales of our products in foreign countries and on sales of products that include components obtained from foreign suppliers;
- credit and collectability risk on our trade receivables with customers in different regions;
- availability, reliability and security of international and cross-border payment systems and logistics infrastructure;
- exchange rate fluctuations;
- political instability and general economic or political conditions in particular countries or regions, including territorial or trade disputes, war and terrorism;
- the shutting down of mobile applications developed by Chinese companies by governments in other countries;
- challenges in replicating or adapting our company policies and procedures to operating environments different from that of mainland China, including technology and logistics infrastructure;
- challenges of maintaining efficient and consolidated internal systems, including information technology infrastructure, and of achieving customization and integration of these systems;
- lack of acceptance of our product and service offerings, and challenges of localizing our offerings to appeal to local tastes;
- increased competition with local players in different markets and sub-markets; and
- protectionist or national security policies that restrict our ability to invest in or acquire companies, develop, import or export certain technologies, or utilize technologies that are deemed by local governmental regulators to pose a threat to their national security.

There is no assurance we will be able to manage these risks and challenges as we continue to grow our overseas businesses. Failure to manage these risks and challenges could negatively affect our ability to expand our overseas and cross-border businesses and operations as well as materially and adversely affect our business, financial condition and results of operations.

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.

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 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.

We generate a significant portion of revenues from our internet services from 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 or there might be a change in distribution fee and revenue sharing arrangements. In addition, increased competition in Chinese and overseas games markets may negatively impact the fee-sharing arrangement between game developers and us. Should any of these occur, our revenues from internet value-added services would be materially and adversely affected. As a result, our business, financial condition and results of operations may be adversely affected.

Our business operations and financial position may be materially and adversely affected by any economic slowdown in mainland China as well as globally.

Our business performance and results of operations are impacted by economic conditions in mainland China and globally to a significant extent. The global economy, markets and levels of spending by businesses and consumers are influenced by many factors beyond our control. The growth of the Chinese economy has slowed in recent years compared to prior years. According to the National Bureau of Statistics of China, China's real GDP growth rate was 6.9% in 2017, which slowed to 6.6% in 2018, further slowed to 6.1% in

2019 and further slowed to 2.3% in 2020. Uncertainties about mainland China and global economic conditions pose 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. An economic downturn, whether actual or perceived, a further decrease in economic growth rates or an otherwise uncertain economic outlook in mainland China or any other market in which we may operate could have a material adverse effect on business and consumer spending and, as a result, adversely affect our business, financial condition and results of operations.

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 license agreements with a number of global technology leaders in the mobile telecommunications market. In addition, we contract with numerous third parties to offer their digital content, including music, films, TV shows and online literature, to our users. 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 current or future third-party content providers and distributors 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 or 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, in 2019, Xiaomi H.K. Limited and Xiaomi Technology France S.A.S., and Xiaomi Technology UK Limited and Xiaomi Technology France S.A.S., among others, were named as defendants in two lawsuits, respectively, filed by IPCom GmbH & Co. KG ("IPCom"), a patent licensing and management company based in Germany. IPCom claimed that we had infringed a patent it holds concerning how smartphones gain access to a network, and sought preliminary injunction against us in the United Kingdom and France. As of the date of the offering memorandum, the High Court of Justice in the United Kingdom and Paris District Court in France have denied the application for the injunction. In addition, Xiaomi Corporation and a number of its subsidiaries were named as defendants in a lawsuit in 2019 filed by Sisvel International S.A. ("Sisvel"), a patent licensing and management company based in Luxembourg. Sisvel started preliminary injunction proceedings against us based on two patents it holds, arguing that we infringed the patents by implementing certain telecommunication standards with respect to our smartphones sold in the Netherlands. The Hague Court of Appeal has dismissed the preliminary injunction application. On June 30, 2021, we entered into a licensing agreement with Sisvel covering the patents at issue, which brought an end to the global dispute between Sisvel and us. In 2020, Koninklijke Philips N.V. initiated proceedings in various jurisdictions including Germany, the United Kingdom, the Netherlands and India claiming global royalty payments and these proceedings are still ongoing.

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 litigation, injunctions and governmental investigations, may be expensive, time-consuming or disruptive to our operations and distracting to management. In recognition of these considerations, in the past we 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.

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.

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 on reasonable terms, or at all.

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 any such litigation, and even if we do prevail, we may not obtain a meaningful recovery. In addition, our trade secrets may be leaked or otherwise become available to, or be independently discovered by, our competitors. Any failure in maintaining, protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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

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

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 cancelation risk.

We record a write-down for inventories that have exceeded net realizable value. We have recorded provision for impairment of inventories in the amount of RMB3,006.5 million, RMB3,859.7 million, RMB3,688.8 million (US$563.0 million) and RMB317.1 million (US$48.4 million) for the years ended December 31, 2018, 2019, 2020 and for the three months ended March 31, 2021, 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 either 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. Some raw materials and components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While we have entered into agreements for the supply of many raw materials, components and IoT and lifestyle products, there can be no assurance that we will be able to extend or renew these agreements on similar terms, or at all. A number of suppliers of raw materials, components and products may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting our ability to obtain sufficient quantities of raw materials and components on commercially reasonable terms. The effects of global or regional economic conditions on our suppliers also could affect our ability to obtain raw materials, components and products. Therefore, we remain subject to significant risks of supply shortages and price increases. Our new products may utilize customized components available from limited sources. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if those suppliers decide to concentrate on the production of common components and products instead of components and products customized to meet our requirements. The supply of components for a new or existing product could be delayed or constrained, and a key partner could delay shipments of completed products to us.

Since the outbreak of COVID-19 in 2020, the global smartphone industry has been experiencing shortages of chips. While manufacturers are working to alleviate the chip shortage, we cannot yet determine the duration or full impact of the industry-wide shortage and the consequent pricing fluctuations. Any disruption or delay in supply of chips may result in delays in delivery of smartphone products to our consumers, and in extreme cases, may cause us to at least temporarily unable to produce, supply or deliver certain of our smartphone products. Such inability could impair our relationship with our customers and have a material adverse effect on our business, financial condition and results of operations.

We use US technologies in our products, which expose us to risks arising out of the U.S.-China trade tensions.

We use US technologies in our products, including smartphones. Due to the ongoing US-China trade tensions, we cannot assure you that we will not be subjected to export restrictions imposed by the United States government in the future. If we were to experience any material disruption to our sourcing of technologies, equipment, software or raw materials from our US suppliers or those who utilize US technologies, we may not be able to switch to an alternative supplier of technologies, equipment and software within a short period time, or at all. In the event we are subjected to any export restriction that limits our ability to procure us technologies, equipment and software, 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, Indonesia, Turkey and Russia. 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 required lead times. 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, natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

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

We cannot assure you that we will be able to maintain good business relationships with our top customers going forward. Our top customers may not continue to provide us with new business in the future at a level similar to that in the past, or at all. Should any of our top customers reduce substantially the size of their purchases from 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 business 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 business 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. We may also need to conduct product recalls in case of product defects from time to time, which may require substantial costs of operational, managerial and financial resources. There is no assurance the product recalls will achieve satisfactory results. Failure to do so could result in lost revenue, significant warranty and other expenses, disputes and related legal proceedings, and harm to our reputation.

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

We believe decisions by users to purchase our hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for our products. If third-party software applications and services cease to be developed and maintained for our products, customers may choose not to buy our products. Android devices are subject to rapid technological change, and, if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. The availability and development of these applications also depend on developers' perceptions and analysis of the relative benefits of developing, maintaining or upgrading software for our devices rather than our competitors' platforms. If developers focus their efforts on these competing platforms, the availability and quality of applications for our devices may suffer.

Our 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 involve 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. For example, in March 2021, we announced our plans to establish a wholly-owned subsidiary to manage our smart electric vehicle business. The initial phase of the investment will be RMB10 billion, with the total investment amount over the course of the next 10 years estimated to be US$10 billion. However, as a new entrant into the smart electric vehicle industry, we have a limited operating history and face significant challenges with respect to, among other things, our ability to design and produce reliable and quality vehicles and maintain technology infrastructure. In addition, we may incur significant costs to develop our smart electric vehicle business, including research and development expenses and providing charging solutions. We may never generate revenue that is significant or large enough to achieve profitability and, even if we do, may not be able to sustain or increase profitability on a quarterly or annual basis. If we are not able to manage our growth or execute our strategies effectively, our expansion in new products categories may not be successful, and we cannot assure you that we will be able to recoup our investments in introducing these new product categories.

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 RMB2,061.2 million, RMB1,672.0 million, RMB4,265.6 million (US$651.1 million) and RMB3,981.6 million (US$607.7 million) as of December 31, 2018, 2019, 2020 and March 31, 2021, respectively. Among our intangible assets, trademarks, patents and domain names amounted to RMB667.9 million, RMB550.8 million, RMB535.0 million (US$81.7 million) and RMB511.8 million (US$78.1 million) as of December 31, 2018, 2019, 2020 and March 31, 2021, 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 affecting 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 overseas operations in a number of areas. These PRC 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 these is violated and such violation 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.

Policy changes affecting international trade, including the imposition of tariffs and the resulting consequences, may have a material adverse impact on our business, operating results and financial condition.

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 restrictions 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 the PRC 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.

In particular, there have been ongoing discussions and commentary regarding potential significant changes to the United States trade policies, treaties, tariffs and taxes, including trade policies and tariffs regarding China. On August 14, 2017, the then President of the United States issued a memorandum instructing the United States Trade Representative, or the USTR, to determine whether to investigate under section 301 of the United States Trade Act of 1974, laws, policies, practices, or actions of the PRC government that may be unreasonable or discriminatory and that may be harming United States intellectual property rights, innovation, or technology development. Based on information gathered in that investigation, the USTR published a report on March 22, 2018 on the acts, policies and practices of the PRC government supporting findings that such acts, policies and practices are unreasonable or discriminatory and burdensome or restrict United States commerce. On March 8, 2018, the President exercised his authority to issue the imposition of significant tariffs on imports of steel and aluminum from a number of countries, including China. Subsequently, the USTR announced an initial proposed list of 1,300 goods imported from China that could be subject to additional tariffs and initiated a dispute with the World Trade Organization (WTO) against China for alleged unfair trade practices. The President has indicated that his two primary concerns to be addressed by China are (i) a mandatory US$100 billion reduction in the China/United States trade deficit and (ii) limiting the planned US$300 billion PRC government support for advanced technology industries including artificial intelligence, semiconductors, electric cars and commercial aircraft. On July 6, 2018, the United States initially imposed a 25% tariff on US$34 billion worth of Chinese goods, including agriculture and industrial machinery, which prompted the PRC government to initially impose tariffs on US$34 billion worth of goods from the United States, including beef, poultry, tobacco and cars. Since July 2018, the United States imposed tariffs on US$250 billion worth of Chinese products and has threatened tariffs on US$325 billion more. In response, China imposed tariffs on US$110 billion worth of U.S. goods, and threatened qualitative measures that would affect U.S. businesses operating in China. In May 2019, the United States raised the tariffs on US$100 billion of Chinese products to 25% from 10%, and were expected to increase further to 30% on October 15, 2019, however such increase was suspended pending negotiation of a "phase one" trade agreement with China. On August 1, 2019, the then President of the United States announced a new 10% ad valorem duty on additional categories of goods imported from China, which amount was then increased to 15% on August 23, 2019. The new tariff at the rate of 15% became effective September 1, 2019 with respect to certain categories of goods and was expected to become effective for additional categories of goods on December 15, 2019. On December 13, 2019 the U.S. and China signed a "phase one" trade agreement, which avoided the imposition of additional tariffs. However, there can be no assurances that the U.S. or China will not increase tariffs or impose additional tariffs in the future.

Due to security-related concerns, U.S. government actions targeting exports of certain technologies to China are becoming more pervasive. In May 2019, the then President of the United States issued an executive order that invoked national emergency economic powers to implement a framework to regulate the acquisition or transfer of information communications technology in transactions that imposed undue national security risks. The executive order was extended in May 2020. The then President of the United States also issued an additional executive order in November 2020 further restricting investments from the United States into certain categories of PRC corporations. While these executive orders do not currently apply to our products, there is no assurance that these actions would not lead to additional restrictions on the sale of telecommunications products to the United States in the future, including those that we manufacture and produce. Any such restrictions imposed by the United States or any other countries may make it more difficult for us to sell our products to these countries, which may in turn have a material adverse effect on our business.

There is significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties, taxes, government regulations and tariffs that would be applicable. It is unclear what changes might be considered or implemented and what response to any such changes may be by the governments of other countries. Significant tariffs or other restrictions placed on Chinese imports and any related counter-measures that are taken by China could have an adverse effect on our financial condition or results of operations. Even in the absence of further tariffs, the related uncertainty and the market's fear of an escalating trade war might create forecasting difficulties for us and cause our customers and business partners to place fewer orders for our products and services, which could have a material adverse effect on our business, liquidity, financial condition, and/or results of operations. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between these nations and the United States. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations and affect our strategy around the world. Given the relatively fluid regulatory environment in China and the United States and relative uncertainty with respect to tariffs, international trade agreements and policies, a trade war, further governmental action related to tariffs or international trade policies, or additional tax or other regulatory changes in the future could directly and adversely impact our financial results and results of operations.

We are subject to governmental economic sanctions laws that could subject us to liability and impair our ability to compete in overseas 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 certain U.S. sanctions, and U.S. export control laws restrict the provision of U.S.-origin products to certain targets of U.S. export controls. United Kingdom financial sanctions and European Union sanctions also have similar regimes 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, there might be unauthorized downstream sales of our products to destinations not permitted under our policy 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.

On January 14, 2021, the U.S. Department of Defense, or the DOD, announced its decision to designate our Company as a "Communist Chinese Military Company," or CCMC, under the National Defense Authorization Act, pursuant to Executive Order 13959 issued by the then President of the United States. On May 25, 2021, the U.S. Federal District Court for the District of Columbia issued a final order vacating the DOD's designation of our Company as a CCMC. In vacating the designation, the court formally lifted all restrictions on U.S. persons' ability to purchase or hold securities of our Company. On June 3, 2021, the DOD released a Chinese Military Companies list and the U.S. Department of the Treasury released a Chinese Military-Industrial Complex Companies list, neither of which includes our Company. Despite our efforts to comply with laws and regulations that are applicable to our business in various jurisdictions, there is no assurance that we will not be included in any restrictive list issued by the U.S. or any other government or subject to other government actions in the future. In the event that we are included in any such list or subject to other government actions, our business, financial condition and reputation may be adversely impacted, and there is no assurance that we will always be able to succeed in removing ourselves from the list and defending our rights.

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

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

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

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

We intend to hire additional qualified employees to support our business operations and planned expansion. Our future success depends, to a significant extent, on our ability to recruit, train and retain qualified personnel, particularly technical, marketing and other operational personnel with experience in the internet industry. Our experienced mid-level managers are instrumental in implementing our business strategies, executing our business plans and supporting our business operations and growth. The effective operation of our managerial and operating systems also depends on the hard work and quality performance of our management and employees. Since our industry is characterized by high demand and intense competition for talent and labor, we can provide no assurance that we will be able to attract or retain qualified staff or other highly skilled employees that we will need to achieve our strategic objectives. Labor costs in mainland China and elsewhere have increased with 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 in 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 consisting of third-party online distribution partners. In mainland China, we cooperate with leading e-commerce players. In many overseas markets, the third-party e-commerce marketplaces in which our products are sold primarily include Flipkart 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, 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 requires significant time and resources. We cannot assure you that we will be able to renew those framework agreements upon their 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. In addition, our rapid expansion of offline retail stores may lead to ineffective store management or information system failure, and the increase in our sales density may lead to a decline in profitability of individual stores. Many factors unique to retail operations, some of which are beyond our control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macroeconomic 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 of 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;
- 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 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.

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

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

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

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

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

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

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

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

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

We have limited experience in operating an internet finance business, and increasing exposure to credit risks or significant deterioration in the asset quality of our internet finance business may materially and adversely affect our business, financial condition, and results of operations. 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, consumer financing solutions and supply chain financing solutions. Operating and expanding in this new business area involves new risks and challenges. For example, our Airstar Bank, a Hong Kong-based virtual bank, is still nascent and may be subject to losses. 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 those preferences. 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. The risk of non-payment of loans is inherent in the internet financing business and we are subject to credit risk resulting from defaults in payment for loans by our customers. Credit risks may be exacerbated in micro-credit financing because there will be relatively limited information available about the credit histories of the borrowers. We cannot assure you that our monitoring of credit risk issues and our efforts to mitigate credit risks through our credit assessment and risk management policies are or will be sufficient to result in lower delinquencies. Furthermore, our ability to manage the quality of our loan portfolio and the associated credit risks will have significant impact on the results of operations of our internet finance business. Deterioration in the overall quality of loan portfolio and the increasing exposure to credit risks may occur due to a variety of reasons, including factors beyond our control, such as a slowdown in the growth of the global or Chinese economies or a liquidity or credit crisis in the global or Chinese finance sectors, which may materially and adversely affect our businesses, operations or liquidity of our consumers or their ability to repay or roll over their debt. Any significant deterioration in the asset quality of our internet finance business and significant increase in associated credit risks may materially and adversely affect our business, financial condition and results of operations.

Meanwhile, the regulatory framework for internet financing business is evolving and may remain uncertain for the foreseeable future. Mainland China's internet financing industry in general remains at a rather preliminary development stage and may not develop at the anticipated pace. It is possible that the PRC laws and regulations may change in ways that do not favor our development. If that happens, our internet financing business may be adversely affected.

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 overseas markets that are not denominated in Renminbi or U.S. dollars. For example, sales in India are denominated in Indian Rupee, and expenses, especially cost of sales, incurred in many overseas markets are denominated in U.S. dollars. Our sales denominated in euro and a variety of other foreign currencies have also increased in recent years as our overseas operations expanded. 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 overseas markets, which include components procured 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 offset the U.S. dollar's strengthening, which would adversely affect the U.S. dollar value of our sales and earnings denominated in foreign currencies. 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 and many overseas markets 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 costs of our outsourcing partners and ecosystem partners, as well as increasing raw material prices, 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 costs 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. 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 our tax returns and other tax matters by domestic and international tax authorities and governmental bodies. We regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of our provision for taxes. There can be no assurance as to the outcome of these examinations. If our effective tax rates were to increase, or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, our financial condition, operating results and cash flows could be adversely affected.

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

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. 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 may need additional capital, and financing may not be available on terms acceptable to us, or at all.

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 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 many overseas 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 policies 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 sufficient business interruption insurance, which is not mandatory under laws in mainland China. We also do not maintain sufficient 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 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 revenue.

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

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

Our business could be significantly influenced by political instability and 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, especially given the current cross-border conflict between India and China. 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.

The UK's withdrawal from the EU, commonly referred to as Brexit, could have an adverse effect on our business in Europe.

Brexit will continue to create significant uncertainty concerning the future relationship between the UK and the EU, particularly if the recent UK withdrawal from the EU in January 2020 is followed by a failure to agree to a future trading relationship between the EU and the UK. Since a significant portion of the regulatory framework in the UK is derived from EU laws, Brexit could materially impact the regulatory regime with respect to the development, importation, approval and marketing of our products in the UK or the EU. All of these changes, if they occur, could have a negative impact on our business in the UK or the EU, such as decreased efficiency in logistics, increased costs related to tariffs and trade barriers and fluctuations in exchange rates.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or their respective advisors.

Facts and statistics in this offering memorandum relating to China's economy and the industries in which we operate are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. If the calculation and collection methods are ineffective or there are other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon.

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 VIEs 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 National Radio and Television Administration, or NRTA, the Ministry of Industry and Information Technology, or MIIT, and the State Council Information Office, 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 internet content provider, or 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 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.

The financial services industry in China is also highly regulated, and financial institutions are subject to a myriad of regulations, many of which are rapidly evolving. In particular, PRC regulatory authorities have in recent years tightened regulations with respect to conducting online financing business. For example, China Banking and Insurance regulatory Commission, or CBIRC, published the Interim Measures for the Administration of Internet Loans of Commercial Banks (商業銀行互聯網貸款管理暫行辦法) in July 2020 (the "New Online Lending Rules"), which stresses the importance of risk data and risk model management and requires commercial banks to build a comprehensive risk management system for online lending business.

On November 2, 2020, People's Bank of China, or PBOC, and CBIRC issued the draft Interim Measures for the Administration of Online Micro-lending (網路小額貸款業務管理暫行辦法(徵求意見稿)) (the "Draft Online Micro-lending Measures"). Aiming to enhance the regulation of online micro-lending, the Draft Online Micro-lending Measures proposed, among other things, a RMB5 billion registered capital threshold for online micro-lenders that operate across different provincial regions, and a RMB1 billion registered capital threshold for online micro-lenders that only operate within the respective province in which they are established. In addition, the Draft Online Micro-lending Measures also introduce a set of new requirements for online micro-lenders' shareholders, such as the controlling shareholder shall have been profitable for the last two consecutive years and have paid in aggregate no less than RMB12 million in tax. The Draft Online Micro-lending Measures also cap the balance of an online micro-lender through issuance of bonds and asset-backed securities at four times of its net assets and at one time of its net assets if borrowed from its shareholders or banks. The size of loans shall not exceed RMB300,000 for each individual or one-third of the borrower's average annual income for the last three years (whichever is lower), or RMB1 million for each business entity.

Online micro-lending companies that conduct business across the regions will be supervised directly by CBIRC, rather than local authorities and are required to share the borrowers' credit information with credit agencies approved by the central bank or other credit rating system such as the Financial Credit Information Data Center. Existing online micro-lending companies will have certain transition periods (three years for online micro-lenders operating across the provincial regions and one year for other online micro-lenders) to become fully compliant with the Draft Online Micro-lending Measures or their online micro-lending license may be revoked.

Considerable uncertainties exist regarding the interpretation and implementation of existing and future laws and regulations governing our business activities. We cannot assure you that we will not be found in violation of any future laws and regulations or any of the laws and regulations currently in effect due to changes in the relevant authorities' interpretation of these laws and regulations. If we fail to complete, obtain or maintain any of the required licenses or approvals or make the necessary filings, we may be subject to various penalties, such as confiscation of the revenue that was 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 PRC 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 a significant portion 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 PRC 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 PRC 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.

We are subject to increasingly complex and rigorous regulations related to our business and internet platforms, and if it is determined that we failed to comply with these regulations, we could be subject to fines, penalties and other sanctions. In addition, future regulations may impose additional requirements and obligations on our business. Any of the above occurrences could harm our reputation and materially and adversely affect our business, financial condition, and results of operations.

The industries in which we operate are highly regulated, new laws and regulations may be adopted to address new issues that arise from time to time and to impose additional restrictions on our current business. If the PRC government establishes stricter supervision requirements in the future in order for us to conduct our business, we may be required to incur significantly higher compliance costs, and we cannot assure you that we would be able to meet all the supervision requirements in a timely manner, or at all. For example, on February 7, 2021, the Anti-monopoly Commission of the State Council officially promulgated the Guidelines to Anti-Monopoly in the Field of Internet Platforms, or the Anti-Monopoly Guidelines for Internet Platforms. The Anti-Monopoly Guidelines for Internet Platforms prohibits certain monopolistic acts of internet platforms so as to protect market competition and safeguard interests of users and undertakings participating in internet platform economy, including without limitation, prohibiting platforms with dominant position from abusing their market dominance (such as discriminating customers in terms of pricing and other transactional conditions using big data and analytics, coercing counterparties into exclusivity arrangements, using technology means to block competitors' interface, favorable positioning in search results of goods displays, using bundle services to sell services or products, compulsory collection of unnecessary user data). In addition, the Anti-Monopoly Guidelines for Internet Platforms also reinforces antitrust merger review for internet platform related transactions to safeguard market competition. Pursuant to the new regulations, if we were to be involved in anti-monopoly and competition laws and regulations related scrutiny or action, governmental agencies and regulators may take certain actions, which may subject us to significant fines or penalties and restrictions imposed on our options. Due to the uncertainty of legislation and local implementation of anti-monopoly and competition laws and regulations in the PRC, we cannot assure you that we will not be subject to any investigations, claims or complaints of alleged violations of these laws and regulations. In addition, we are subject to numerous foreign laws and regulations covering a wide variety of subject matters, including competition and anti-trust laws in Europe and other jurisdictions, and our products and services are closely scrutinized by competition authorities around the world. These foreign laws and regulations (or new interpretations of existing laws and regulations) may require us to incur substantial costs, expose us to unanticipated liability, or cause us to change our business practices.

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 wholly foreign-owned enterprises, or 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 WFOEs. 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 PRC legal system, particularly with regard to internet-related industries, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in mainland China may be protracted and result in substantial costs and diversion of resources and management attention.

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

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

We may be classified as a "resident enterprise in mainland China" for PRC 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, or the EIT Law, which became effective on January 1, 2008 and subsequently amended on February 24, 2017 and December 29, 2018, 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, or 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 State Administration of Taxation, or 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, or SAT Circular 82, that sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of mainland China and controlled by PRC enterprises or PRC enterprise groups is located within mainland China. On July 27, 2011, the SAT issued the Administrative Measures for Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial), or SAT Bulletin 45, to provide more guidance on the implementation of SAT Circular 82; the bulletin became effective on September 1, 2011 and was revised on April 17, 2015, June 28, 2016, and June 15, 2018. SAT Bulletin 45 clarified certain issues in the areas of resident status determination, post-determination administration and competent tax authorities' procedures.

Under SAT Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC 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 PRC resident controlled offshore incorporated enterprise.

Although SAT 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 PRC enterprises or PRC enterprise groups, Circular 82 may reflect the SAT's criteria for determining the tax residence of foreign enterprises in general. If PRC tax authorities determine that we were treated as a resident enterprise in mainland China for PRC enterprise income tax purposes, the 25% PRC 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 PRC laws and regulations, including the M&A Rules, the Anti-monopoly Law 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 promulgated by MOFCOM in August 2011, or 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. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review. We have grown and may continue to grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from 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, 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, or 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 PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company, or 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 PRC resident enterprise this Indirect Transfer. Using a "substance over form" principle, the PRC 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 PRC tax.

On March 28, 2011, the SAT released the SAT Public Notice (2011) No. 24, or SAT Public Notice 24, which became effective on April 1, 2011, to clarify several issues related to SAT 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, or 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 PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of PRC taxable assets. Under SAT Circular 7, the tax authorities in mainland China are entitled to reclassify the nature of an indirect transfer of PRC taxable assets, when a non-resident enterprise transfers PRC taxable assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC taxable assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC 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 PRC taxable assets by acquiring and selling shares of an overseas listed company which holds such PRC taxable assets on a public market; and (ii) where there is an indirect transfer of PRC taxable assets, but if the non-resident enterprise had directly held and disposed of such PRC 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, or SAT Circular 37, which became effective on December 1, 2017 and abolished 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 PRC 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 PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Ordinary 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 PRC tax laws. Our PRC 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 PRC 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 PRC 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.

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, PRC withholding tax at the rate of 10% (unless a treaty or similar arrangement otherwise provides) is normally applicable to dividends from PRC sources payable to investors that are resident enterprises outside of PRC, 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 China 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 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 PRC withholding tax at a rate of 20% and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws.

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

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

We may transfer funds to our PRC subsidiaries or finance our PRC subsidiaries by means of shareholders' loans or capital contributions after completion of this offering. Any loans to our PRC subsidiaries, which are foreign-invested enterprises, cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with SAFE or its local counterparts.

Furthermore, any capital contributions we make to our PRC subsidiaries shall be (i) registered with the competent branch of State Administration for Market Regulation and reported to MOFCOM via the online enterprise registration system, and (ii) registered with the local banks authorized by SAFE. 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 PRC 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, SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, or Circular 19, which will replace Circular 142 from June 1, 2015. Circular 19, however, allows foreign-invested enterprises whose main business is investment in mainland China to use their registered capital settled in RMB converted from foreign currencies to make equity investments, but the registered capital of such 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. On October 23, 2019, SAFE promulgated the Notice by the State Administration of Foreign Exchange of Further Facilitating Cross-border Trade and Investment, or Circular 28 which allows all foreign-invested enterprises in mainland China to use their registered capital settled in RMB converted from foreign currencies to make equity investments. Circular 19 and Circular 28 may limit our ability to transfer the net proceeds from this offering to our PRC subsidiaries and convert the net proceeds into RMB.

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

SAFE issued the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or 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 Round-trip Investments via Overseas Special Purpose Vehicles, or Circular 75. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with 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 PRC 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 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 PRC individual shareholder, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by Circular 37, fails to fulfill the required foreign exchange registration with the local SAFE branches, the PRC 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 PRC subsidiaries. Moreover, failure to comply with SAFE registration described above could result in liability under PRC 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 PRC residents, and therefore, we may not be able to identify all our shareholders or beneficial owners who are PRC 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 PRC 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 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 PRC 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 rely on dividends and other distributions on equity that may be paid by our subsidiaries in mainland China and remittances from our VIEs, 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 PRC subsidiaries or our VIEs 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 PRC laws and regulations, WFOEs in mainland China may pay dividends only out of their retained earnings as determined in accordance with PRC accounting standards and regulations. In addition, a WFOE is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. At the discretion of the board of directors of the WFOE, it may allocate a portion of its after-tax profits based on PRC 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 VIEs 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 PRC 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 Ordinary 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 PRC 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 PRC 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 foreign currencies fluctuates, is subject to changes resulting from the PRC 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. Any significant revaluation of Renminbi may materially and adversely affect our revenues, earnings and financial position. To the extent that we need to convert foreign currencies into RMB for capital expenditures and working capital and other business purposes, appreciation of the RMB against foreign currencies would have an adverse effect on the RMB amount we would receive from the conversion. Conversely, a significant depreciation of the Renminbi against foreign currencies may significantly reduce the foreign currencies' equivalent of our earnings, and if we decide to convert RMB into foreign currencies for strategic acquisitions or investments or other business purposes, appreciation of the foreign currencies against the RMB would have a negative effect on the amount available to us in foreign currencies. With the development of the foreign exchange market and progress toward interest rate liberalization and Renminbi internationalization, the PRC 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, the U.S. dollar or other foreign currencies in the future. In addition, our currency exchange losses may be magnified by mainland China's exchange control regulations that restrict our ability to convert Renminbi into foreign currency. As a result, fluctuations in exchange rates may have a material adverse effect on our financial position.

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.

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

On July 14, 2006, Hong Kong and mainland China signed 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, or the 2006 Arrangement, as revised on February 29, 2008, pursuant to which a party with a final 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 PRC 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 2006 Arrangement in which a Hong Kong court or a PRC 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.

On January 18, 2019, Hong Kong and mainland China signed 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, or the 2019 Arrangement. The 2019 Arrangement seeks to establish a mechanism for recognition and enforcement of judgments in a wider range of civil and commercial matters, based on criteria other than a written bilateral choice of court agreement. The 2019 Arrangement will only apply to judgments made after its commencement date, which is not yet known. The 2006 Arrangement shall be terminated when the 2019 Arrangement comes into effect. However, the 2006 Arrangement will continue to apply to a choice of court agreement in writing signed before the 2019

Arrangement comes into effect. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Risks Relating to Our Corporate Structure

If the PRC government finds that the agreements that establish the structure for operating our business do not comply with PRC 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 PRC 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 an exempted company incorporated under the laws of the Cayman Islands. To comply with PRC 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 PRC citizens who are our founder, co-founders or shareholders, with whom we have contractual arrangements. The contractual arrangements give us effective control over each of the VIEs and enable us to obtain substantially all of the economic benefits arising from the VIEs as well as consolidate the financial results of the VIEs in our results of operations. The PRC government may not agree that these arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. These VIEs and their subsidiaries hold the licenses, approvals and key assets that are essential for the operations of our businesses in China.

There are substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations. The relevant regulatory authorities in mainland China have broad discretion in determining whether a particular contractual structure violates PRC laws and regulations. If we are found in violation of any PRC laws or regulations or if the contractual arrangements among our material wholly-foreign owned enterprises, our material VIEs and subsidiaries and their respective equity holders are determined as illegal or invalid by any PRC court, arbitral tribunal or regulatory authorities, the relevant governmental authorities would have broad discretion in dealing with such violation, including, without limitation:

- revoking the agreements constituting the contractual arrangements;
- revoking our business and operating licenses;
- requiring us to discontinue or restrict operations;
- restricting our right to collect revenue;
- shutting down all or part of our websites or services;
- levying fines on us and/or confiscating the proceeds that they deem to have been obtained through non-compliant operations;
- requiring 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;
- imposing additional conditions or requirements with which we may not be able to comply; or
- taking 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 our material VIEs, 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 PRC laws, rules and regulations may be introduced to impose additional requirements that may impose additional challenges to our corporate structure and contractual arrangements. The occurrence of any of these events or the imposition of any of these penalties may result in a material and adverse effect on our ability to conduct internet-related businesses. In addition, if the imposition of any of these penalties causes us to be unable to direct the activities of such VIEs and its subsidiary or lose the right to receive their economic benefits, we would no longer be able to consolidate such VIEs into our financial statements, thus adversely affect our results of operation.

Uncertainties exist with respect to the interpretation and implementation of the newly enacted Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

The National People's Congress approved the Foreign Investment Law on March 15, 2019 and the State Council approved the Regulation on Implementing the Foreign Investment Law (the "Implementation Regulations") on December 12, 2019, effective from January 1, 2020, to 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 Foreign Investment Law embodies an expected regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, "foreign investment" refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in mainland China. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activity under the definition in the future. In addition, the definition contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the State Council to provide for contractual arrangements as a form of foreign investment. In any of these cases, it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment under the applicable laws and regulations. Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

Our contractual arrangements with respect to our VIE structure may not be as effective in providing operational control as direct ownership and our VIE shareholders may fail to perform their obligations under our contractual arrangements.

We operate certain restricted businesses in mainland China through certain VIEs and their subsidiaries, in which we have no ownership interest and rely on a series of contractual arrangements to control and operate these businesses. Our revenue and cash flow from our businesses are attributed to our VIEs. The contractual arrangements may not be as effective as direct ownership in providing us with control over our VIEs. 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 VIEs, 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 VIEs 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 PRC 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 VIEs. As a result, we may be unable to consolidate our VIEs 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 VIEs and their subsidiaries, 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 VIEs and their subsidiaries hold licenses, approvals and assets that are necessary for the related 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 PRC law. The contractual arrangements with respect to our VIE structure contain terms that specifically obligate VIEs equity holders to ensure the valid existence of the VIEs and restrict the disposal of material assets or any equity interest of the VIEs. However, in the event the VIEs equity holders breach the terms of these contractual arrangements and voluntarily liquidate our VIEs, or any of our VIEs 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 the relevant business operations or otherwise benefit from the assets held by the VIEs, which could have a material adverse effect on our relevant business, financial condition and results of operations. Furthermore, if any of our VIEs 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 VIEs, thereby hindering our ability to operate our business as well as constrain our growth.

The contractual arrangements with our VIEs 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 PRC tax laws may be interpreted in significantly different ways. The PRC tax authorities may assert that we or our subsidiaries or VIEs or their equity holders owe and/or are required to pay additional taxes on previous or future revenue or income. In particular, under applicable PRC laws, rules and regulations, arrangements and transactions among related parties, such as the contractual arrangements with our VIEs, may be subject to audit or challenge by the PRC tax authorities. If the PRC 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 PRC tax liabilities of the relevant subsidiaries and/or VIEs and/or equity holders of VIEs could be increased, which could increase our overall tax liabilities. In addition, the PRC 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 VIEs, 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 VIEs, including Lei Jun, our Executive Director, Founder, Chairman and Chief Executive Officer, must act in good faith and in the best interests of the VIEs and must not use their respective positions for personal gain. On the other hand, as a director of our Company, Lei Jun has fiduciary duties to our Company under Cayman Islands law. We control our VIEs through contractual arrangements and the business and operations of our VIEs 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 VIEs and as directors or employees of our Company, and may also arise due to dual roles both as VIEs 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 VIEs 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 VIEs and their subsidiaries, 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 VIEs by way of the contractual arrangements, but certain of the terms of the contractual arrangements may not be enforceable under PRC laws.

All the agreements which constitute the contractual arrangements are governed by PRC laws and provide for the resolution of disputes through arbitration in mainland China. Accordingly, these agreements would be interpreted in accordance with PRC laws and disputes would be resolved in accordance with PRC legal procedures. The legal environment in mainland China is not as developed as in other jurisdictions and uncertainties in the PRC 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 VIEs and their subsidiaries, and our ability to conduct our business and our financial condition and results of 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 VIEs and their subsidiaries, injunctive relief and/or winding up of our VIEs and their subsidiaries. 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 PRC laws, these terms may not be enforceable. Under PRC 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 VIEs and their subsidiaries 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. PRC laws do allow the arbitral body to grant an award of transfer of assets of or equity interests in our VIEs and their subsidiaries in favor of an aggrieved party. Therefore, in the event of breach of any agreements constituting the contractual arrangements by our VIEs and their subsidiaries 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 VIEs and their subsidiaries, which could negatively affect our ability to conduct our business.

Risks Relating to the Bonds and the Guarantee

The Bonds may not be a suitable investment for all investors.

Each potential investor in any Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this offering memorandum or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Developments in other markets may adversely affect the market price of the Bonds.

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for China-based companies' securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in other regions in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

An active trading market may not develop for the Bonds and the trading price of the Bonds could be materially and adversely affected.

The Bonds are a new issue of securities with no established trading market. The Issuer will apply to the SEHK for listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only. However, we cannot assure you that the Bonds will be or remain listed. We do not intend to apply for listing of the Bonds on any U.S. securities exchange or for quotation through an automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the Bonds as permitted by applicable laws. However, the Initial Purchasers are not obligated to make a market in the Bonds and may discontinue their market-making activities at any time at their discretion without notice. In addition, the liquidity of the trading market in the Bonds, and the market price quoted for the Bonds, may be adversely affected by changes in the overall market for securities and by changes in our financial performance or prospects of companies in our industry in general. As a result, we cannot assure you that an active trading market will develop or be maintained for the Bonds. If a market for the Bonds does not develop or is not maintained, the market price and liquidity of the Bonds may be adversely affected.

In addition, the Bonds may trade at prices that are higher or lower than the price at which the Bonds have been issued. The price at which the Bonds trade depends on many factors, including:

- prevailing market interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions such as the recent downgrade of the long-term sovereign credit rating of the U.S. and the ongoing European debt crisis, almost all of which are beyond our control.

As a result, there can be no assurance that you will be able to resell the Bonds at attractive prices or at all.

Additionally, with respect to the Green Bonds, the market price may also be impacted by any failure by us to use the net proceeds of the Green Bonds to finance or refinance Eligible Projects or to meet or continue to meet the funding requirements of certain environmentally- or socially-focused investors with respect to the Green Bonds.

Changes in market interest rates may have an adverse effect on the price of the Bonds.

The Bondholders may suffer unforeseen losses due to fluctuations in market interest rates. Generally, a rise in market interest rates may cause a fall in the trading prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when market interest rates fall, the trading prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates. As the Bonds will carry a fixed interest rate, the trading price of the Bonds will consequently vary with the fluctuations in the U.S. dollar interest rates. If the Bondholders propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, the market price for the Bonds and trading volume could decline.

The trading market for our Bonds will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades the Bonds or our Company generally or publishes inaccurate or unfavorable research about our business, the market price for the Bonds would likely decline. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for the Bonds to decline significantly.

The Issuer is a financing subsidiary with no material business activities of its own and will be dependent on funds from the Company to make payments under the Bonds.

The Issuer was established by the Company with the primary purpose to engage in financing activities, including the issuance and offering of the Bonds, and will transfer the net proceeds from issuing the Bonds to the Company and/or its subsidiaries. The Issuer does not and will not have any material assets but it will receive repayments from the Company and/or its subsidiaries in respect of loans made by the Issuer to those companies, which will be the only material sources of funds available to meet the claims of holders of the Bonds. As a result, the Issuer is subject to all the risks to which the Company is subject, to the extent that such risks could limit their ability to satisfy in full and on a timely basis their respective obligations to the Issuer under any such loans.

The Bonds are the Issuer's senior unsecured obligations and will (i) rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Bonds; (ii) rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law); and (iii) be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans or bonds will be prior with respect to those assets. In the event of the Issuer's or our bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to you ratably with all of the Issuer's other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid. The Issuer does not have any subsidiary and does not have any indebtedness, other than the Bonds, the 2027 Bonds and the 2030 Notes.

The terms of the Indentures and the Bonds provide only limited protection against significant corporate events that could materially and adversely impact your investment in the Bonds.

While the Indentures and the Bonds contain terms intended to provide protection to holders of the Bonds upon the occurrence of certain events involving significant corporate transactions and our creditworthiness, these terms are limited and may not be sufficient to protect your investment in the Bonds. For example, the Indentures will not prohibit some important corporate events, such as leveraged recapitalizations, even though those corporate events could significantly increase the level of our indebtedness or otherwise materially and adversely affect our capital structure, credit ratings or the value of the Bonds.

The Indentures for the Bonds also do not:

- require us to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows or liquidity;

- limit our ability to incur indebtedness that is equal in right of payment to the Bonds;

- restrict the ability of our subsidiaries or consolidated affiliated entities to issue unsecured debt securities or otherwise incur unsecured indebtedness that would be senior to our equity interests in our subsidiaries or consolidated affiliated entities and therefore rank effectively senior to the Bonds;

- limit the ability of our subsidiaries or consolidated affiliated entities to service other indebtedness;

- restrict our ability to repurchase or prepay any other of our securities or other indebtedness;

- restrict our ability to make investments or to repurchase or pay dividends or make other payments in respect of our shares or other securities ranking junior to the Bonds; or

- limit our ability or that of our subsidiaries or consolidated affiliated entities to secure or guarantee any bank debt, bank loans or securitizations.

As a result of the foregoing, when evaluating the terms of the Bonds, you should be aware that the terms of the Indentures and the Bonds do not restrict our ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events that could have a material adverse impact on your investment in the Bonds.

The Bonds and the Guarantee are unsecured obligations.

As the Bonds and the Guarantee are unsecured obligations, their repayment may be compromised if:

- the Company or the Issuer enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;

- there is a default in payment under the Issuer's or our future secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of the Issuer's or our indebtedness.

Although we do not expect any of these events to occur with respect to the Issuer or the Company, if any of these events occur, the Issuer's and our assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

The Bonds will be effectively subordinated to any of our secured indebtedness to the extent of the value of the assets securing that indebtedness.

The Bonds will not be secured by any of our assets. As a result, the Bonds will be effectively subordinated to our existing and future secured indebtedness with respect to the assets that secure that indebtedness. The effect of this subordination is that upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of bankruptcy, insolvency, liquidation, dissolution or reorganization of us, the proceeds from the sale of assets securing our secured indebtedness will be available to pay obligations on the Bonds only after all such secured indebtedness has been paid in full. As a result, the holders of the Bonds may receive less ratably than the holders of secured debt in the event of our bankruptcy, insolvency, liquidation, dissolution or reorganization.

The Bonds will be structurally subordinated to the existing and future indebtedness and other liabilities of our existing and future subsidiaries and effectively subordinated to their secured or unsecured debt and other liabilities and commitments.

The Bonds will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of our existing and future subsidiaries, whether or not secured. We may not have direct access to the assets of their respective subsidiaries (other than the Issuer) unless these assets are transferred by dividend or otherwise to us. The ability of such subsidiaries to pay dividends or otherwise transfer assets to us is subject to various restrictions under applicable laws and contracts to which they are party. Each of such subsidiaries is a separate legal entity that has no obligation to pay any amounts due under the Bonds or make any funds available therefor, whether by dividend, loans or other payments. Our right to receive assets of any of their respective subsidiaries (other than the Issuer) upon such subsidiary's liquidation or reorganization will be effectively subordinated to the claim of such subsidiary's creditors (except to the extent that we are the creditors of that subsidiary). Consequently, the Bonds will be effectively subordinated to all liabilities, including trade payables and lease obligations, of such subsidiary and any subsidiary that the Issuer or we may in the future acquire or establish.

The Indentures do not restrict the amount of additional debt that we may incur and has limited restrictions on our ability to incur secured debt.

The Bonds and the Indentures under which the Bonds will be issued do not limit the amount of unsecured debt that may be incurred by us or our subsidiaries or consolidated affiliated entities, and permit us and our subsidiaries and consolidated affiliated entities to incur or guarantee an unlimited amount of bank debt, bank loans and securitizations as well as other types of indebtedness in certain circumstances, including Renminbi-denominated notes, bonds and debentures initially offered, marketed or issued primarily to persons resident in the PRC, without securing or guaranteeing the Bonds equally and ratably therewith. In addition, we (including our controlled entities) are permitted to secure capital markets indebtedness in certain circumstances. Our and our subsidiaries' and consolidated affiliated entities' incurrence of additional debt may have important consequences for you as a holder of the Bonds, including making it difficult for us to satisfy our obligations with respect to the Bonds, a loss in the market value of your Bonds and a risk that the credit rating of the Bonds is lowered or withdrawn.

We may not be able to repurchase the Bonds upon a Triggering Event.

Upon the occurrence of a Triggering Event (as defined in the sections titled "Description of the 2031 Bonds" and "Description of the 2051 Bonds" of this offering memorandum, as applicable), the Issuer will be required to make an offer to repurchase all or, at the holder's option, a part, of the applicable Bonds outstanding at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, on the applicable Bonds being repurchased to, but not including, the date of repurchase. The source of funds for any purchase of the Bonds would be our available cash or cash generated from our subsidiaries' or consolidated affiliated entities' operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the Bonds upon a Triggering Event because we may not have sufficient financial resources to purchase all of the debt securities that are tendered upon a Triggering Event and repay our other indebtedness that may become due. We may require additional financing from third parties to fund any such purchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the Bonds may be limited by law.

Holders of the Bonds may not be able to determine when a Triggering Event giving rise to their right to have the Bonds repurchased has occurred.

The definition of Triggering Event in the Indentures that will govern the Bonds includes a phrase relating to operating "substantially all" or deriving "substantially all" of the economic benefits from, the business operations conducted by the Group. There is no precise established definition of the phrase "substantially all" under New York law. Accordingly, the ability of a holder of the Bonds to require us to repurchase its Bonds as a result of a Triggering Event may be uncertain.

Holders of the Bonds will not be entitled to registration rights, and we do not currently intend to register the Bonds under applicable securities laws. There are restrictions on your ability to transfer or resell the Bonds.

The Bonds are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable securities laws, and we do not currently intend to register the Bonds in any jurisdiction. The holders of the Bonds will not be entitled to require the Issuer to register the Bonds for resale or otherwise. Therefore, you may transfer or resell the Bonds only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable securities laws of your jurisdiction and/or state, and you may be required to bear the risk of your investment for an indefinite period of time. See "Transfer Restrictions."

The ratings of the Bonds and the corporate ratings of the Guarantor may be lowered, suspended or withdrawn; changes in such credit rating may adversely affect the value of the Bonds.

The Bonds are expected to be assigned a rating of "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. In addition, the Guarantor has been assigned a long-term corporate credit rating of "Baa2" with a stable outlook by Moody's, "BBB-" with a positive outlook by S&P and "BBB" with a stable outlook by Fitch. Ratings are limited in scope, and do not address all material risks relating to an investment in the Bonds, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of your Bonds and increase our corporate borrowing costs.

The Issuer or the Company may be deemed a "resident enterprise" under mainland China's tax laws, which could subject interest on the Bonds to mainland China's withholding tax and gains on the transfer of the Bonds to mainland China's income tax and could, under certain circumstances, permit us to redeem the Bonds.

If the Issuer or the Company is considered a mainland China resident enterprise under the mainland China's EIT Law, holders of the Bonds who are non-resident enterprises may be subject to mainland China's withholding tax on interest paid or mainland China's income tax on any gains realized from the transfer of the Bonds, if such income is considered to be derived from sources within mainland China, at a rate of 10% (or lower rate if available under an applicable tax treaty), provided that such non-resident enterprise investor (i) has no establishment or premises in mainland China, or (ii) has an establishment or premises in mainland China but its income derived from mainland China has no real connection with such establishment or premises. Furthermore, if we are considered a mainland China resident enterprise and relevant mainland China tax authorities consider interest we pay with respect to the Bonds or any gains realized from the transfer of Bonds to be income derived from sources within mainland China, such interest earned by non-resident individuals may be subject to mainland China withholding tax and such gain realized by non-resident individuals may be subject to mainland China's individual income tax, in each case at a rate of 20% (or lower rate if available under an applicable tax treaty). However, if the Issuer or Company is considered a mainland China resident enterprise, it is unclear whether in practice non-resident investors would be able to obtain the benefits of tax treaties between PRC and their countries. In addition, if the Issuer or the Company is considered a mainland China resident enterprise, interest payable to non-resident holders of the Bonds may be subject to mainland China's value-added tax at a rate of 6% and related local levies, including educational surtax and urban maintenance and construction tax at a rate of up to 0.72%. As described in this offering memorandum, the Issuer may redeem the Bonds in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest if such requirement to pay additional amounts results from a change in law (or a change in the official application or interpretation of law).

If the Issuer, the Guarantor or any member of the Group or affiliates is unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of its debt to be accelerated.

If the Issuer, the Guarantor or any member of the Group or affiliates is unable to comply with the restrictions and covenants in their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, a default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under the Issuer's, the Guarantor's or such member's other debt agreements. If any of these events occur, there is no assurance that the Issuer or the Guarantor would have sufficient assets and cash flow to repay in full all of its indebtedness, or that the Issuer or the Guarantor would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, it could not guarantee that it would be on terms that are favorable or acceptable to the Issuer or the Guarantor.

Any failure to complete the relevant filings under the NDRC Circular (as defined below) within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer, the Guarantor and/or the investors in the Bonds.

On September 14, 2015, the NDRC promulgated the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (《國家發展改革委員會關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) (the "NDRC Circular"), which came into effect on the same day. According to the NDRC Circular, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds or notes outside of the PRC with a maturity of more than one year, such enterprise must in advance of issuing such bonds or notes, file certain prescribed documents with the NDRC and obtain a registration certificate from the NDRC in respect of such issue. According to the NDRC Circular, the NDRC will decide whether to accept a submission within five PRC working days upon receipt of the submission and is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the bonds or notes to the NDRC within 10 PRC business days upon the completion of the bond or note issue. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular. Failure to comply with the post-issuance filing requirement may result in the relevant entities being put on the credit blacklist in the PRC and subject them to credit-related sanctions. Potential investors in the Bonds are advised to exercise due caution when making their investment decisions.

Exchange rate risks and exchange controls may affect an investor's returns on the Bonds.

The Group will pay principal on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor's Currency-equivalent yield on the Bonds; (ii) the Investor's Currency-equivalent value of the principal payable on the Bonds; and (iii) the Investor's Currency-equivalent market value of the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less principal than expected, or no principal.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisors to determine whether and to what extent:

- the Bonds are legal investments for it;
- the Bonds can be used as collateral for various types of borrowing; and
- any other restrictions apply to its purchase or pledge of the Bonds.

Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

The Issuer's ability to make payments under the Bonds depends on timely payments by the Guarantor or its subsidiaries and affiliates under the on-lent loans.

The Issuer is a direct wholly-owned subsidiary of the Guarantor with limited operations of its own and will on-lend the entire proceeds from the issue of the Bonds to the Guarantor or its subsidiaries and affiliates.

The Issuer has limited net assets other than such loans and its ability to make payments under the Bonds depends on timely payments under such loans. In the event that the Guarantor or its subsidiaries and affiliates do not make such payments, due to the Guarantor's lack of available cash flow or other factors, the Issuer's ability to make payments under the Bonds may be adversely affected.

The insolvency laws of Hong Kong, the Cayman Islands and other local insolvency laws may differ from those of any other jurisdiction with which holders of the Bonds are familiar.

Since the Issuer was incorporated under the laws of Hong Kong and the Guarantor was incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to the Issuer or the Guarantor, even if brought in other jurisdictions, would likely involve Hong Kong or Cayman Islands (as the case may be) insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions. We conduct most of our business operations in the PRC. The laws and regulations in the PRC relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Bonds are familiar. Investors should analyze the risks and uncertainties carefully before they invest in the Bonds.

The Issuer and the Company will follow the applicable corporate disclosure standards for debt securities listed on the SEHK, which standards may be different from those applicable to companies in certain other countries.

The Issuer will apply to the SEHK for listing of and permission to deal in the Bonds by way of debt issues to Professional Investors only. Upon the granting of the approvals by the SEHK, the Issuer will be subject to the applicable corporate disclosure standards for debt securities listed on the SEHK. The disclosure standards imposed by the SEHK may be different than those imposed by securities exchanges in other countries or regions such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the Bonds are accustomed to.

We may elect to redeem the Bonds prior to their maturity.

Pursuant to terms of the Bonds, we may elect to redeem the Bonds of the relevant Series prior to their maturity in whole or in part at the price specified in the sections titled "Description of the 2031 Bonds – Redemption – Optional Redemption" and "Description of the 2051 Bonds – Redemption – Optional Redemption," as applicable. The date on which we elect to redeem the Bonds may not accord with the preference of particular Bondholders. In addition, a Bondholder may not be able to reinvest the redemption proceeds in comparable securities at the same rate of return of the Bonds.

Also, as described under "Description of the 2031 Bonds – Tax Redemption" and "Description of the 2051 Bonds – Tax Redemption," in the event we are required to pay Additional Amounts with respect to any payment due or to become due under the applicable Bonds as a result of (i) any change in or amendment to the laws or regulations of a Relevant Jurisdiction (as defined therein), or (ii) any change in the official interpretation or official application of such laws, regulations, which obligation cannot be avoided by the taking of reasonable measures by us, then subject to certain conditions, we may redeem the Bonds of the relevant Series, as a whole but not in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest (including any Additional Amounts).

We have significant flexibility in allocating the net proceeds of the Green Bonds and there can be no assurance that such net proceeds will be totally or partially disbursed for any Eligible Projects.

We intend to use the estimated net proceeds from the sale of the Green Bonds within 36 months to finance or refinance, in whole or in part, one or more of our new or existing Eligible Projects, pursuant to the Framework. However, there can be no assurance that any such Eligible Project will be implemented in part or in its entirety in such manner and/or in accordance with any timing schedule, or that any such Eligible Project will be completed within any specified period or at all or with the results or outcome as we originally expected or anticipated. We have significant flexibility in allocating the net proceeds of the Green Bonds and there can be no assurance that such net proceeds will be totally or partially disbursed for the Eligible Projects. Neither the terms of the Green Bonds nor the Indenture governing the Green Bonds require us to use the proceeds as described under "Use of Proceeds," and any failure by us to comply with the anticipated use of proceeds will not constitute an event of default under the Green Bonds or the Indenture or result in an increase in interest rates or other penalties. Prospective investors should carefully review the information set out in this offering memorandum regarding such use of the net proceeds and must determine for themselves the relevance of such information for the purpose of any investment in the Green Bonds together with any other investigation such investor deems necessary and whether the Green Bonds are suitable for their investment criteria.

There is no clear legal and regulatory definition of or market consensus of or standardized criteria for what constitutes a "green," "social," "sustainability" or other equivalently labeled project or investment, and there can be no assurance that the use of proceeds of the Green Bonds to finance the Eligible Projects will be suitable for the investment criteria of an investor.

There is currently no clear definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green," "social," "sustainability" or an equivalently-labeled project or investment, or as to what exact characteristics or attributes may be required for a particular project to be defined as "green," "social," "sustainability" or such other equivalent label, and no assurance can be given that a clear definition of or consensus regarding such projects will develop over time.

None of the Initial Purchasers for this offering is responsible for assessing or verifying whether the Eligible Projects to which we allocate the net proceeds of the Green Bonds meet the criteria or went through the process of evaluation and selection described in "Use of Proceeds," or for monitoring the use of proceeds. In particular, no assurance is given by us or any Initial Purchaser of the Bonds that the use of such net proceeds to fund any Eligible Projects will satisfy (or will continue to satisfy), whether in whole or in part, any present or future investor expectations or requirements, taxonomies or standards or other investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable laws or regulations or by its own by-laws or other governing rules or investment portfolio mandates, ratings mandates or other independent expectations regarding such "green," "social," "sustainability" or other equivalently-labeled performance objectives, in particular with regard to any direct or indirect environmental, social, or sustainability impact of any projects or uses, the subject of or related to, any Eligible Project. Any failure to allocate the net proceeds from the sale of the Green Bonds to the Eligible Projects or the failure of those investments or financings to satisfy investor expectations or requirements could have a material adverse effect on the market price of the Green Bonds.

In addition, no assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by us) that may be made available in connection with the offering of the Green Bonds and, in particular, with respect to whether the Green Bonds or the Eligible Projects fulfill any environmental, social, sustainability and/or other criteria. For the avoidance of doubt, any such opinion or certification is not and shall not be deemed to be incorporated into and/or form part of this offering memorandum. Any such opinion or certification is not, nor should be deemed to be, a recommendation by us or any initial purchaser, or any other person to buy, sell or hold the Green Bonds. Any such opinion or certification is only current as of the date that opinion or certification was initially issued. Currently, the providers of such opinions and certifications may not be subject to any specific regulatory or other regime or oversight. Any withdrawal of any such opinion or certification or any additional opinion or certification attesting that we are not complying in whole or in part with any matters for which such opinion or certification is opining or certifying may have a material adverse effect on the value of the Green Bonds and/or result in adverse consequences for certain investors with mandates to invest in securities to be used for a particular purpose. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in the Green Bonds.

The Green Bonds may not be included in any dedicated "green," "environmental," "social," "sustainability" or other equivalently-labeled index, and any such inclusion may not be indicative of the suitability for the investment criteria of an investor.

While no assurance can be given that any such inclusion will happen, in the event that the Green Bonds are included in any dedicated "green," "environmental," "social," "sustainability" or other equivalently-labeled index, no representation or assurance can be given by us, any initial purchaser or any other person:

- that such inclusion would satisfy (or would continue to satisfy), whether in whole or in part, any present or future investor expectations or requirements, taxonomies or standards or other investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable laws or regulations or by its own by-laws or other governing rules or investment portfolio mandates, ratings mandates or other expectations, in particular with regard to any direct or indirect environmental, social or sustainability impact of any projects or uses, the subject of or related to, any Eligible Projects (and it should be noted that the criteria for any such inclusion in an index may vary); or

- that any such inclusion will be maintained during the life of the Green Bonds.

In the event that the Green Bonds are included in any such index, any change to the inclusion status of the Green Bonds, including, but not limited to, the exclusion of the Green Bonds from the index or the suspension or admission to trading of the Green Bonds, may have a material adverse effect on the value of the Green Bonds and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose. Prospective investors must determine for themselves the relevance of any such inclusion for the purpose of any investment in the Green Bonds.

We may make amendments or modifications to certain provisions of the Indentures.

Under certain circumstances as described under "Description of the 2031 Bonds – Modification and Waiver" and "Description of the 2051 Bonds – Modification and Waiver" in the offering memorandum, we may, from time to time and without the consent of any holder of the Bonds of any series, make certain amendments to the Indentures. Further, we may, from time to time and with the consent of the holders of not less than a majority in aggregate principal amount of the applicable Series of the outstanding Bonds, make certain amendments to the Indentures or change or modify the rights of the holders of such Bonds. If the requisite consents are obtained (if required) and/or the relevant conditions are satisfied (or waived) and such amendments or modifications become operative, all holders of the applicable Series of the outstanding Bonds will be bound by the terms of the Indentures as amended, whether or not a holder of the Bonds delivered a consent. Such amendments or modifications could materially increase the credit risks faced by the holders of the Bonds or could otherwise be materially adverse to the interests of the holders of the Bonds.

The Trustee may request the Bondholders to provide an indemnity, security and/or pre-funding to its satisfaction.

Under certain circumstances, including without limitation giving notice to the Issuer upon an event of default and taking enforcement steps pursuant to the terms of the Indentures, the Trustee may, at its sole and absolute discretion, request the Bondholders to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of the Bondholders. The Trustee will not be obliged to take any such actions if not indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Indentures and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

The Bonds will initially be represented by one or more global bonds and holders of a beneficial interest in a global bond must rely on the procedures of the relevant clearing system.

The Bonds will initially be represented by one or more global bonds, which will be deposited with a custodian for DTC, Euroclear and Clearstream (each of DTC, Euroclear and Clearstream, a "Clearing System"). Except in the circumstances described in the global bond, investors will not be entitled to receive definitive Bonds. The relevant Clearing System will maintain records of the beneficial interests in a global bond. While the Bonds are represented by one or more global bonds, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Bonds are represented one or more global bonds, the Issuer will discharge its payment obligations under the Bonds by making payments through the relevant Clearing Systems, for distribution to their account holders. A holder of a beneficial interest in a global bond must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. The Issuer and the Company have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in a global bond.

Holders of beneficial interests in a global bond will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth on an actual basis our consolidated cash and cash equivalents and capitalization as of March 31, 2021 and as adjusted to give effect to the net proceeds from the issuance of the Bonds being issued, after deducting the Initial Purchasers' discount and estimated expenses payable in connection with this offering. The following table should be read in conjunction with the summary financial information and consolidated financial statements and related notes included elsewhere in this offering memorandum.

	As of March 31, 2021			
	Actual		Adjusted	
	RMB	US$	RMB	US$
	(Unaudited) (in thousands)			
Cash and cash equivalents	34,279,506	5,232,075	42,022,235	6,413,846
Restricted cash	2,073,854	316,532	2,073,854	316,532
Total cash	**36,353,360**	**5,548,607**	**44,096,089**	**6,730,378**
Short-term bank deposits	34,939,507	5,332,810	34,939,507	5,332,810
Short-term investments measured at fair value through profit or loss	22,855,966	3,488,502	22,855,966	3,488,502
Short-term debt:				
Borrowings	**7,392,181**	**1,128,267**	**7,392,181**	**1,128,267**
Total short-term debt	**7,392,181**	**1,128,267**	**7,392,181**	**1,128,267**
Long-term debt:				
Borrowings	**13,612,704**	**2,077,704**	**13,612,704**	**2,077,704**
Bonds to be issued in this offering	–	–	7,742,729	1,181,771
Total long-term debt	**13,612,704**	**2,077,704**	**21,355,433**	**3,259,475**
Share capital	410	63	410	63
Reserves	131,935,957	20,137,360	131,935,957	20,137,360
Equity attributable to equity holders of the Company	**131,936,367**	**20,137,423**	**131,936,367**	**20,137,423**
Non-controlling interests	318,979	48,686	318,979	48,686
Total equity	**132,255,346**	**20,186,109**	**132,255,346**	**20,186,109**
Total capitalization(1)	**145,549,071**	**22,215,127**	**153,291,800**	**23,396,898**

Note:

(1) Total capitalization equals total long-term debt plus equity attributable to equity holders of the Company.

Except as disclosed herein, there have been no material changes in the Company's total capitalization since March 31, 2021.

DESCRIPTION OF THE ISSUER

Formation

The Issuer is a public company limited by shares incorporated in Hong Kong on December 20, 2018. Its registered office is located at Suite 3210, 32/F, Tower 5, The Gateway, Harbour City, 15 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

Business Activity

The Issuer's primary purpose is to engage in financing related activities, including the issuance and offering of the 2030 Notes, the 2027 Bonds and the Bonds, in relation to the Company and the Group. As of the date of this offering memorandum, the Issuer has no material assets. In the future, the Issuer may engage in other financing related activities in relation to the Company and the Group and may incur substantial liabilities and indebtedness.

Directors

The directors of the Issuer are Lin Bin and Lam Sai Wai Alain.

Share Capital

The Issuer is authorized to issue up to a maximum of 500,000,000 ordinary shares of a single class, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange.

USE OF PROCEEDS

Use of Proceeds for the Bonds (excluding the Green Bonds)

The estimated net proceeds of the sale of the Bonds (excluding the Green Bonds) after deducting the Initial Purchasers' discount and estimated pro rata expenses payable in connection with the offering of such Bonds will be approximately US$789.0 million, which we intend to use for general corporate purposes.

Use of Proceeds for the Green Bonds

The estimated net proceeds of the sale of the Green Bonds after deducting the Initial Purchasers' discount and estimated pro rata expenses payable in connection with the offering of the Green Bonds will be approximately US$392.8 million. As described below, we intend to use this amount or an equivalent amount within 36 months to finance or refinance, in whole or in part, one or more of our new or existing Eligible Projects, pursuant to our Green Finance Framework (the "Framework"). The Framework has received a "second party opinion" by an independent consultant.

The Framework was developed in fulfillment of the following guidelines:

- Green Bond Principles 2021 ("GBP"); and
- Green Loan Principles 2021 ("GLP," and together with GBP, the "Guidelines").

The Green Bonds are aligned with the core components of GBP and GLP, with GBP being especially relevant to the Eligible Projects, which we believe will catalyze positive environmental and social benefits. GBP is administered by the International Capital Markets Association. GLP is administered by the Loan Market Association, the Loan Syndications and Trading Association and the Asia Pacific Loan Market Association.

The Eligible Projects are investments and expenditures made by us or any of our subsidiaries in assets and projects that are aligned with one or more of the project categories set forth below. The Eligible Projects will consist of investments and expenditures beginning with the issuance date of the Green Bonds or in the 24 months prior to the issuance of the Green Bonds in the case of refinancing. We expect that each of our Eligible Projects will meet one or more of the following eligibility criteria, but any Eligible Project receiving an allocation of the net proceeds from the sale of the Green Bonds may or may not include any one or all of the example projects listed below.

Eligible Project Category	Eligibility Criteria and Example Projects
Eco-efficient and Circular Economy Adapted Products, Production Technologies and Processes	• Expenditures related to research & development (R&D) of products to achieve energy efficiency and to be certified by the China Energy Label (CEL) , China Energy Conservation Product Certification (CECP), and European Union Energy Label: ➢ reduction in energy and water consumption, as well as greenhouse gas emission. • R&D expenditures related to facilitating the use of eco-efficient materials in its products and packaging, including, but not limited, to: ➢ designing product packaging to reduce packaging material usage and weight, and to reduce/avoid the adoption of plastic and film materials by utilizing biodegradable paper; and ➢ replacing existing phone components with bio-based or other recycled materials.

Eligible Project Category	Eligibility Criteria and Example Projects
Energy Efficiency	• Design, installation, development and operation of infrastructure that reduce energy consumption or avoid greenhouse gas emission in operations, including, but not limited to: ➢ design and development of energy-efficient infrastructures that enable unmanned production and achieve 24-hour lights out production; and ➢ improvement and maintenance of energy-saving electrical appliances controlled by a smart energy management system.
Green Buildings	• Expenditures related to (i) improvement or refinancing of existing, and (ii) design or construction of new, office space, commercial buildings, or surrounding communities certified in accordance with any one of the following selected certification systems: ➢ Chinese Green Building Evaluation Label (GBL) – Two stars or above; ➢ U.S. Leadership in Energy and Environmental Design (LEED) – Gold or above; ➢ Building Research Establishment Environmental Assessment Model (BREEAM) – Excellent or above; and ➢ BCA Green Mark – Gold or above.
Clean Transportation	• Expenditures related to investment in property, plant and equipment (PP&E), as well as R&D expenditures of alternative vehicles, sample projects, including, but not limited, to: ➢ electric vehicles; and ➢ electric scooters and electric self-balancing scooters.
Pollution Prevention and Control	• Promoting waste classification and instant waste conversion in order to mitigate its environmental impact. • Recycling domestic waste and kitchen waste in offices to reduce solid waste disposal: ➢ installation and maintenance of waste processing equipment in Xiaomi Science and Technology Park canteen, which converts kitchen waste into organic fertilizer in accordance with national standards.

Eligible Project Category	Eligibility Criteria and Example Projects
Renewable Energy	• Expenditures related to new or existing renewable energy projects (solar and wind projects) or the associated transmission solutions: ➢ Installation and operation of two sets of solar boiler systems in Xiaomi Science and Technology Park.

Process for Project Evaluation and Selection

We have established a green financing governance structure at all levels of our Company, including a corporate governance committee (the "CGC") and a Green Financing team. The CGC oversees the overall green financing issues on behalf of the board of directors of our Company. The Green Financing team, which consists of executive managers across different business units within our Company, as well as senior management within our Company, convenes on an annual basis to assess and select Eligible Projects based on the aforementioned eligibility criteria to ensure alignment with the Framework.

The Green Financing team reports to the CGC on the current progress, project selection and future targets related to the green financing projects. The CGC will then evaluate and decide whether to approve the projects. After receiving final approval of the CGC, the Green Financing team will be responsible for coordinating resources for the effective enforcement of these project plans.

Management of Proceeds

Net proceeds of the Green Bonds will be deposited in our general account, which will then be earmarked for allocation to the Eligible Projects in accordance with the Framework. Net proceeds of the Green Bonds awaiting allocation will be held in accordance with our Company's normal liquidity management policy. We commit not to invest unallocated proceeds to high pollution activities or ineligible projects.

The CGC and the financial controller of our Company will track the use of net proceeds of the Green Bonds through our internal information system on an annual basis.

In the case of divestment or if a project no longer meets the relevant eligibility criteria, we will seek to reallocate the relevant amount to other Eligible Projects.

Reporting and Assurance

We will provide information on the allocation of the net proceeds of the Green Bonds on our website and in our Environmental, Social and Governance Report or the Green Bond Report. Such information will be provided on an annual basis until all the net proceeds of the Green Bonds have been fully allocated.

We have worked with an independent third-party consultant with recognized expertise in environmental, social and governance research and analysis to (i) assess our Framework for alignment with the Guidelines; and (ii) obtain and make publicly available a "second party opinion" from such consultant with respect to such alignment.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering subject to the applicable PRC laws and regulations. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this offering memorandum subject to the applicable PRC laws and regulations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in connection with "Summary Financial Information" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements. See "Forward-Looking Statements" regarding these statements. Our historical consolidated financial statements have been prepared in accordance with IFRS.

OVERVIEW

Xiaomi is an internet company with smartphones and smart hardware connected by an IoT platform at its core. Our unique and powerful "triathlon" business model comprises three synergistic pillars of growth – (i) innovative, high-quality and well-designed hardware focused on exceptional user experience, (ii) highly efficient new retail distribution platform allowing our products to be priced accessibly and (iii) engaging internet services.

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention. For our core in-house products, we focus on designing and developing a range of cutting-edge hardware products, including smartphones, laptops, smart TVs, AI speakers, smart routers, smart watches, smart air conditioners, smart refrigerators and other large appliances. We curate a wide range of additional products through investments in our ecosystem partners over the years. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

Our highly efficient omni-channel new retail distribution platform is a core component of our strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our user experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with our users. In recent years, we have continually expanded our offline retail network through our self-operated Mi Home stores, among others. Moreover, to establish our offline new retail presence in lower-tier cities and rural areas of China, we have built a sizable authorized store network. As of April 30, 2021, we had established over 5,500 offline retail stores in mainland China. Our offline retail network allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

We provide internet services to give our users a complete mobile internet experience. In March 2021, we had 425.3 million MAU globally and 118.6 million MAU in mainland China on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between smart hardware and internet services enable us to provide our users with a better user experience. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit.

Our total revenues increased from RMB174.9 billion in 2018 to RMB205.8 billion in 2019, and further to RMB245.9 billion (US$37.5 billion) in 2020. Our total revenues also increased by 54.7% from RMB49.7 billion for the three months ended March 31, 2020 to RMB76.9 billion (US$11.7 billion) for the three months ended March 31, 2021. We generated a profit of RMB13.5 billion, RMB10.1 billion, RMB20.3 billion (US$3.1 billion) and RMB7.8 billion (US$1.2 billion) in 2018, 2019, 2020 and for the three months ended March 31, 2021, respectively. We had non-IFRS adjusted net profit of RMB8.6 billion, RMB11.5 billion, RMB13.0 billion (US$2.0 billion) and RMB6.1 billion (US$0.9 billion) in 2018, 2019, 2020 and for the three months ended March 31, 2021, respectively. See "– Consolidated Income Statements" and "– Non-IFRS Measure: Adjusted Net Profit" for details.

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

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

General Factors

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

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

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

Specific Factors

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

Popularity of Our Products

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

Management of Supply-related Costs

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

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

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

Expansion and Penetration in Overseas Markets

We have experienced significant growth in overseas operations in recent years. Geographically, we generated 40.0%, 44.3%, 49.8% and 48.7% of our revenues in overseas markets in 2018, 2019, 2020 and for the three months ended March 31, 2021, respectively. As of March 31, 2021, our products were sold in over 100 countries and regions. We believe our global opportunity is significant, and we will continue to enhance our sales and marketing efforts, expand our distribution channels, and invest in infrastructure and personnel to support our overseas expansion. We intend to leverage our strong execution abilities to localize our unique business model internationally. We believe our smartphone's leading position in many overseas markets lays a strong foundation for us to further expand our user base and internet services offerings to enhance user experience and further increase user monetization in those markets. We may have to adapt our business model to the local markets due to various legal requirements and market conditions. Fluctuation in currency exchange rates between our main transaction currencies and foreign currencies used in overseas markets may impact our financial condition and operating results.

Growth of Internet Services Revenues

Our internet services segment has achieved high gross profit margins, which play a significant role in our overall profitability.

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

Strategic Investments

We have invested in a large number of companies both in mainland China and in the rest of the world. As of March 31, 2021, we had invested in an ecosystem of over more than 320 companies with an aggregated book value of approximately RMB51.9 billion (US$7.9 billion), as compared with RMB48.0 billion (US$7.3 billion) as of December 31, 2020. Many of our investments have since become very successful. For example, in February 2020, Roborock (SH: 688169), an investee company which produces robot vacuum cleaners for our Company, was successfully listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange in mainland China. In May 2020, Kingsoft Cloud Holdings Ltd. (Nasdaq: KC), an investee company, successfully listed on the Nasdaq Stock Market. In October 2020, Ninebot Limited (SH: 689009), an investee company that produces electric scooters, was successfully listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange. These investee companies can efficiently expand our product and service offerings, provide proprietary technologies complementary to ours, or expand our overseas footprint. We believe our strategic investments can provide us with an additional stream of recurring income. We plan to continue to invest in businesses that are complementary to our business and growth strategies. Such investments may impact our results of operations and financial condition, depending on the amount involved and the performance of the companies in which we invest. In 2018, 2019, 2020 and for the three months ended March 31, 2021, our fair value gains on investments measured at fair value through profit or loss were RMB4.4 billion, RMB3.8 billion, RMB13.2 billion (US$2.0 billion) and RMB2.1 billion (US$0.3 billion), respectively.

Investment in People, Technology and Infrastructure

We are a technology company operating in intensely competitive markets. We have made, and will continue to make, significant investments in people, technology and infrastructure, to solidify our market leadership and to provide richer user experience. Talent attraction and retention are critical for our business operations and growth prospects as we invest more in R&D, expand our product and service offerings, and broaden our retail channels. We will continue to invest in our people, particularly engineers, designers and product management personnel.

In addition, we have dedicated and will continue to dedicate significant resources to R&D. Our patent portfolio, especially global patent portfolio, has grown rapidly in recent years as a result of our continued investments. We expect our future investments will include designing and developing new products and services with enhanced functionalities and features, as well as continued building of our patent reserve around the world. We will also continue to upgrade and expand our technology infrastructure to keep pace with the growth of our business. We have invested significant resources in the development of our 5G, cloud, big data and AI capabilities in recent years, and we expect to continue to do so in the near future.

Marketing and Brand Promotion

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

Management of Working Capital

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

Capital Expenditures on Land Use Rights and Office Buildings

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We set forth below the principal accounting policies applied in the preparation of our historical consolidated financial statements.

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments related to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. We set forth below those estimates and assumptions that we believe may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

For more details on our significant accounting policies and critical accounting estimates and judgments, see note 2 and note 4 to the consolidated financial statements included elsewhere in this offering memorandum.

Revenue Recognition

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

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

Sales of Products

Revenue from sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers is recognized when control of the goods has been transferred (being when the products are accepted by the customers). The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. We base our estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Internet Services

Internet services are mainly comprised of advertising services and internet value-added services.

Advertising Services

Advertising revenues are mainly comprised of display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

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

Internet Value-added Services

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

Fintech Business

Our fintech revenues primarily consist of financial interest income and intermediary services income.

We generate financial interest income from provision of loan services through our own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

We also provide intermediary services to the borrowers and third party funding parties (as the lenders). We are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, we do not record loans receivable and payable arising from the loans between lenders and borrowers. We act as an agent to facilitate such loans. We consider the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether our revenue should be reported gross or net is based on a continuing assessment of various factors. When determining whether we are acting as the principal or agent in offering goods or services to the customer, we need to first identify who controls the specified goods or services before they are transferred to the customer. We are a principal if we obtain control through any of the following: (i) a good or another asset from the other party that we then transfer to the customer; (ii) a right to a service to be performed by the other party, which gives us the ability to direct that party to provide the service to the customer on our behalf; or (iii) a good or service from the other party that we then combine with other goods or services in providing the specified goods or service to the customer. If control is unclear, when we are primarily obligated in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or several but not all of these indicators are present, then we record revenues on a gross basis. Otherwise, we record the net amount earned as commissions from products sold or services provided.

We do not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, we do not adjust any of the transaction prices for the time value of money.

Foreign Currency Translation

Functional and Presentation Currency

Items included in the financial information of each of our entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Our functional currency is the United States dollar ("US$"). Our primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As our major operations are within mainland China, we have determined to present our consolidated financial statements in RMB (unless otherwise stated).

Transactions and Balances

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

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

Group Companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income, or OCI.

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

Disposal of Foreign Operation and Partial Disposal

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

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

Financial assets

Classification

We classify our financial assets in the following measurement categories:

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

- those to be measured at amortized cost.

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

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

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

Measurement

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

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

Debt Instruments

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

- *Amortized cost.* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- *Fair value through other comprehensive income, or FVOCI.* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses), net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses), net.

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

Equity Instruments

We subsequently measure all equity investments at fair value. Where we have elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our right to receive payments is established.

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

Impairment

We assess on a forward looking basis the expected credit losses associated with debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

Impairment on other financial assets, mainly including loan receivables, other receivables, term bank deposits, long-term investments measured at amortized cost and short-term investments measured at FVOCI, is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

Derecognition

Financial assets

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

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

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

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

Asset-backed securities

As part of our operations, we securitize financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. With respect to the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liability is recognized regarding the interest in the unconsolidated securitization vehicles that we acquired. With respect to the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; with respect to the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

Other financial liabilities

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

Intangible Assets

Goodwill

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

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

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

Licenses

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the PRC government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. Licenses that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using the straight-line method.

Trademarks, Patents and Domain Names

Separately acquired trademarks, patents and domain names are shown at historical cost. Trademarks, patents and domain names acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain names have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain names over their estimated useful lives of 1 to 16 years.

Other Intangible Assets

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

Research and Development Expenditures

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of and to use or sell the software products are available; and
- the expenditure attributable to the software product during its development can be reliably measured. Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

Leases

We have changed our accounting policy for leases where we are the lessee. The new policy is described below.

Until December 31, 2018, leases of plant and equipment and office where we, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the repayment of lease liability and finance cost. The finance cost was charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that we will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statements on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by us.

Contracts may contain both lease and non-lease components. We allocate the consideration in the contract to the lease and non-lease components based on their relative standalone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as of the commencement date;
- amounts expected to be payable by us under residual value guarantees;

- the exercise price of a purchase option if we are reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects our exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for our leases, the lessee's incremental borrowing rate is used (being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions).

To determine the incremental borrowing rate, we:

- where possible, use recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- use a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by us, which does not have recent third party financing; and

- make adjustments specific to the lease, e.g., term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If we are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. We have chosen not to revalue our right-of-use assets.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where we are a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. We did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

CONSOLIDATED INCOME STATEMENTS

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in thousands, except percentages)											
Revenue	**174,915,425**	**100.0**	**205,838,682**	**100.0**	**245,865,633**	**37,526,425**	**100.0**	**49,702,167**	**100.0**	**76,882,163**	**11,734,510**	**100.0**
Cost of sales	**(152,723,486)**	**(87.3)**	**(177,284,649)**	**(86.1)**	**(209,113,771)**	**(31,916,995)**	**(85.1)**	**(42,143,710)**	**(84.8)**	**(62,720,932)**	**(9,573,084)**	**(81.6)**
Gross profit	**22,191,939**	**12.7**	**28,554,033**	**13.9**	**36,751,862**	**5,609,430**	**14.9**	**7,558,457**	**15.2**	**14,161,231**	**2,161,426**	**18.4**
Selling and marketing expenses	(7,993,072)	(4.6)	(10,378,073)	(5.0)	(14,539,400)	(2,219,146)	(5.9)	(2,624,873)	(5.3)	(4,163,475)	(635,470)	(5.4)
Administrative expenses	(12,099,078)	(6.9)	(3,103,901)	(1.5)	(3,746,449)	(571,820)	(1.5)	(781,533)	(1.6)	(987,652)	(150,745)	(1.3)
Research and development expenses	(5,776,826)	(3.3)	(7,492,554)	(3.6)	(9,256,139)	(1,412,763)	(3.8)	(1,870,984)	(3.8)	(3,011,991)	(459,720)	(3.9)
Fair value changes on investments measured at fair value through profit or loss	4,430,359	2.5	3,813,012	1.9	13,173,479	2,010,666	5.4	347,846	0.7	2,063,207	314,907	2.7
Share of (losses)/gains of investments accounted for using the equity method	(614,920)	(0.3)	(671,822)	(0.3)	1,380,904	210,767	0.6	130,738	0.3	8,989	1,372	0.0
Other income	844,789	0.5	1,265,921	0.6	642,930	98,130	0.3	73,727	0.1	152,053	23,208	0.2
Other gains/(losses), net	213,281	0.1	(226,399)	(0.1)	(372,458)	(56,848)	(0.2)	(510,190)	(1.0)	(64,699)	(9,875)	(0.1)
Operating profit	**1,196,472**	**0.7**	**11,760,217**	**5.7**	**24,034,729**	**3,668,416**	**9.8**	**2,323,188**	**4.7**	**8,157,663**	**1,245,103**	**10.6**
Finance income/(expenses), net	216,373	0.1	402,429	0.2	(2,401,297)	(366,510)	(1.0)	130,901	0.3	909,217	138,773	1.2
Fair value changes of convertible redeemable preferred shares	12,514,279	7.2	–	–	–	–	–	–	–	–	–	–
Profit before income tax	**13,927,124**	**8.0**	**12,162,646**	**5.9**	**21,633,432**	**3,301,906**	**8.8**	**2,454,089**	**4.9**	**9,066,880**	**1,383,876**	**11.8**
Income tax expenses	(449,377)	(0.3)	(2,059,696)	(1.0)	(1,320,722)	(201,582)	(0.5)	(294,195)	(0.6)	(1,277,973)	(195,057)	(1.7)
Profit for the year/period	**13,477,747**	**7.7**	**10,102,950**	**4.9**	**20,312,710**	**3,100,324**	**8.3**	**2,159,894**	**4.3**	**7,788,907**	**1,188,819**	**10.1**
Non-IFRS Measure: Adjusted net profit (unaudited)[(1)]	**8,554,548**	**4.9**	**11,532,296**	**5.6**	**13,006,363**	**1,985,159**	**5.3**	**2,300,510**	**4.6**	**6,069,281**	**926,353**	**7.9**

Note:

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

DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We generate revenues from four business segments: smartphones, IoT and lifestyle products, internet services and others. Our revenues from smartphones segment are derived from the sale of smartphones. Our revenues from the IoT and lifestyle products segment comprise revenues from sales of (i) our other in-house products, such as laptops, smart TVs, AI speakers, smart routers, smart watches, smart air conditioners, smart refrigerators and other large appliances, and (ii) our ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Our revenues from internet services segment are derived from advertising services and internet value-added services. Revenues from other segment are primarily derived from repair services for our hardware products and sales of materials.

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Smartphones	113,800.4	65.1	122,094.9	59.3	152,190.9	23,228.9	61.9	30,324.7	61.0	51,491.0	7,859.1	67.0
IoT and lifestyle products	43,816.9	25.1	62,088.0	30.2	67,410.5	10,288.9	27.4	12,984.2	26.1	18,243.3	2,784.5	23.7
Internet services	15,955.6	9.1	19,841.6	9.6	23,755.3	3,625.8	9.7	5,900.7	11.9	6,570.8	1,002.9	8.5
Others	1,342.5	0.7	1,814.2	0.9	2,508.9	382.8	1.0	492.6	1.0	577.1	88.0	0.8
Total	**174,915.4**	**100.0**	**205,838.7**	**100.0**	**245,865.6**	**37,526.4**	**100.0**	**49,702.2**	**100.0**	**76,882.2**	**11,734.5**	**100.0**

Geographically, we generated 60.0%, 55.7%, 50.2% and 51.3% of our revenues in mainland China in 2018, 2019, 2020 and the first quarter of 2021, respectively. The following table sets forth revenues from mainland China and the rest of the world both as an absolute amount and as a percentage of total revenues for the periods indicated:

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Mainland China	104,944.8	60.0	114,608.6	55.7	123,484.3	18,847.3	50.2	24,870.1	50.0	39,473.7	6,024.9	51.3
Rest of the world	69,970.6	40.0	91,230.1	44.3	122,381.3	18,679.1	49.8	24,832.1	50.0	37,408.5	5,709.6	48.7
Total	**174,915.4**	**100.0**	**205,838.7**	**100.0**	**245,865.6**	**37,526.4**	**100.0**	**49,702.2**	**100.0**	**76,882.2**	**11,734.5**	**100.0**

Smartphones

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

	For the year ended December 31,			For the three months ended March 31,	
	2018	2019	2020	2020	2021
Average selling price (RMB)[1]	959.1	979.9	1,039.8	1,038.0	1,042.1
Number of smartphones sold (millions)	118.7	124.6	146.4	29.2	49.4
Total revenues from smartphones segment (RMB millions)	113,800.4	122,094.9	152,190.9	30,324.7	51,491.0

Note:

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

IoT and Lifestyle Products

We have significantly expanded our product categories in recent years and systematically introduced a series of popular products. Our core in-house products (excluding smartphones) include laptops, smart TVs, AI speakers, smart routers, smart watches, smart air conditioners, smart refrigerators and other large appliances. We also collaborate with our ecosystem partners to design and develop a wide range of smart home, health and fitness, travel, audio, kids and other IoT products, as well as certain lifestyle products, the sales of which have driven the growth of our user base.

Internet Services

The growth of our internet services revenues ultimately depends on the size of our user base and the level of user engagement and spending. MAU of our MIUI operating system increased from 242.1 million in December 2018 to 309.6 million in December 2019, to 396.3 million in December 2020 and further to 425.3 million in March 2021.

We derive our internet services revenues from advertising and internet value-added services. We generate advertising revenue primarily by offering advertisements through our online distribution channels, which include our mobile apps and smart TVs. For online games operations, we generate revenue from sales of virtual currency for purchase of virtual items that can be used in the games we operate, which is subject to the revenue-sharing arrangements with third-party game developers. Our other sources of internet value-added service revenues are mainly from fintech business, paid subscription by users of premium entertainment content (such as online videos) and the Youpin e-commerce platform.

Others

Revenues from others segment are primarily derived from repair services for our hardware products and sale of materials.

Cost of Sales

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

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Smartphones	106,757.1	61.0	113,335.5	55.1	138,986.9	21,213.5	56.5	27,872.3	56.1	44,857.4	6,846.6	58.3
IoT and lifestyle products	39,306.1	22.5	55,134.3	26.8	58,804.8	8,975.4	23.9	11,242.9	22.6	15,590.7	2,379.6	20.3
Internet services	5,683.9	3.2	6,998.1	3.4	9,111.0	1,390.6	3.7	2,529.1	5.1	1,816.1	277.2	2.4
Others	976.4	0.6	1,816.7	0.8	2,211.1	337.5	1.0	499.4	1.0	456.7	69.7	0.6
Total	152,723.5	87.3	177,284.6	86.1	209,113.8	31,917.0	85.1	42,143.7	84.8	62,720.9	9,573.1	81.6

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

	For the year ended December 31,				For the three months ended March 31,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(Unaudited)	(Unaudited)	
	(in millions)						
Cost of inventories sold	138,237.7	157,935.8	185,753.2	28,351.5	36,844.2	57,003.1	8,700.4
Royalty fees	4,263.4	5,042.1	6,687.3	1,020.7	1,526.5	2,159.7	329.6
Warranty expenses	1,068.3	2,641.8	2,823.9	431.0	637.9	1,072.5	163.7
Content fees to game developers and video providers	1,629.1	1,754.6	2,418.0	369.1	688.9	683.5	104.3
Cloud service, bandwidth and server custody fees	1,725.2	1,724.1	1,980.3	302.3	453.9	573.8	87.6
Provision for impairment of inventories	3,006.5	3,859.7	3,688.8	563.0	409.3	317.1	48.4
Others	2,793.3	4,326.5	5,762.3	879.4	1,583.0	911.2	139.1
Total	**152,723.5**	**177,284.6**	**209,113.8**	**31,917.0**	**42,143.7**	**62,720.9**	**9,573.1**

Gross Profit

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Gross profit	22,191.9	12.7	28,554.1	13.9	36,751.8	5,609.4	14.9	7,558.5	15.2	14,161.3	2,161.4	18.4

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Smartphones	7,043.3	6.2	8,759.4	7.2	13,204.0	2,015.4	8.7	2,452.4	8.1	6,633.6	1,012.5	12.9
IoT and lifestyle products	4,510.8	10.3	6,953.7	11.2	8,605.7	1,313.5	12.8	1,741.3	13.4	2,652.6	404.9	14.5
Internet services	10,271.7	64.4	12,843.5	64.7	14,644.3	2,235.2	61.6	3,371.6	57.1	4,754.7	725.7	72.4
Others	366.1	27.3	(2.5)	(0.1)	297.8	45.3	11.9	(6.8)	(1.4)	120.4	18.3	20.9
Total	**22,191.9**	**12.7**	**28,554.1**	**13.9**	**36,751.8**	**5,609.4**	**14.9**	**7,558.5**	**15.2**	**14,161.3**	**2,161.4**	18.4

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of (i) offline promotional and advertising expenses, (ii) online promotional and advertising expenses, (iii) employee benefit expenses (including salaries, bonuses and share-based compensation) relating to selling and marketing personnel, and (iv) freight and transportation expenses.

Administrative Expenses

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

Research and Development Expenses

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

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

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

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

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

Other Income

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

Other Gains/(Losses), Net

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

Operating Profit

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Operating Profit	1,196.5	0.7	11,760.2	5.7	24,034.7	3,668.4	9.8	2,323.1	4.7	8,157.7	1,245.1	10.6

Finance Income/(Expenses), Net

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

Fair Value Changes of Convertible Redeemable Preferred Shares

Fair value changes of convertible redeemable preferred shares represent changes in fair value of the preferred shares issued by us prior to our initial public offering. Please refer to note 35 to the consolidated financial statements included in elsewhere this offering memorandum for details. We designate preferred shares as financial liabilities at fair value. Any changes in the fair value of the preferred shares are recorded as "fair value changes of convertible redeemable preferred shares" in the consolidated income statements.

Taxation

We are subject to various rates of income tax under different jurisdictions. The following summarizes the major factors affecting our applicable tax rates in the Cayman Islands, the British Virgin Islands, Hong Kong, mainland China and India.

Cayman Islands

The following is a discussion of certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands law, payments of interest and principal on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Bonds, nor will gains derived from the disposal of the Bonds be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. No stamp duty is payable in respect of the issue of the Bonds. An instrument of transfer in respect of a Bond is stampable if executed in or brought into the Cayman Islands.

Hong Kong

Hong Kong profits tax was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess thereof.

Mainland China

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

Certain subsidiaries are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows: Beijing Xiaomi Mobile Software Co., Ltd. ("Xiaomi Mobile") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Accordingly, Xiaomi Mobile was entitled to a tax refund for the income tax paid in 2017 and such tax refund was received by Xiaomi Mobile from the local tax bureau in December 2018. Xiaomi Mobile enjoyed the preferential EIT rate of 10% for the three months ended March 31, 2021 and the years ended December 31, 2020, 2019 and 2018. Beijing Xiaomi Digital Technology Co., Ltd. was qualified as a "High and New Technology Enterprise" in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020.

According to the relevant laws and regulations promulgated by the State Council of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). SAT announced in September 2018 that enterprises engaging in research and development activities would be entitled to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year.

Profit

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

	For the year ended December 31,							For the three months ended March 31,				
	2018		2019		2020			2020		2021		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(Unaudited)		(Unaudited)		
	(in millions, except percentages)											
Profit...	13,477.7	7.7	10,102.9	4.9	20,312.7	3,100.3	8.3	2,159.8	4.3	7,788.9	1,188.8	10.1

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

- the Margin = the net profits after tax relating to the sales of our entire hardware business based on our management accounts for a financial year, or the Net Profit / the revenue of the entire hardware business for the same financial year; and

- the Profit = (revenue from the entire hardware business – cost of goods sold relating to the entire hardware business – the selling and marketing expenses, research and development expenses and administrative expenses relating to the sales of the entire hardware business) x (1 – the Group's effective tax rate for the preceding financial year).

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

In each of 2018, 2019, 2020, our hardware business (including smartphones, IoT and lifestyle products) was profitable with a net margin after tax of less than 1.0%, fulfilling our pledge.

NON-IFRS MEASURE: ADJUSTED NET PROFIT

To supplement our consolidated results which are prepared and presented in accordance with the IFRS, we utilize non-IFRS adjusted net profit as an additional financial measure. We define adjusted net profit as profit for the period, as adjusted by adding back (i) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value changes on investments, (iv) amortization of intangible assets resulting from acquisitions, (v) changes of value of financial liabilities to fund investors, and (vi) income tax effects of Non-IFRS adjustments.

Adjusted net profit is not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and the impact of certain investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating the Group's operating performance. However, the use of this particular non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

The following tables set forth the reconciliations of our non-IFRS financial measure for the years ended December 31, 2018, 2019, 2020 and the three months ended March 31, 2020 and 2021 to the nearest measures prepared in accordance with IFRS:

	Unaudited							
	Three Months Ended March 31, 2021							
		Adjustments						
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Changes of value of financial liabilities to fund investors(3)	Income tax effects(4)	Non-IFRS
	(RMB in thousands, unless specified)							
Profit for the period	7,788,907	–	665,677	(1,666,922)	79	(788,017)	69,557	6,069,281
Net margin	10.1%							7.9%

	Unaudited							
	Three Months Ended March 31, 2020							
		Adjustments						
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Changes of value of financial liabilities to fund investors(3)	Income tax effects(4)	Non-IFRS
	(RMB in thousands, unless specified)							
Profit for the period	2,159,894	–	569,921	(386,670)	79	41,006	(83,720)	2,300,510
Net margin	4.3%							4.6%

	Year Ended December 31, 2020							
		Adjustments						
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Changes of value of financial liabilities to fund investors(3)	Income tax effects(4)	Non-IFRS
	(RMB in thousands, unless specified)							
Profit for the year	20,312,710	–	2,328,319	(12,187,807)	316	2,892,323	(339,498)	13,006,363
Net margin	8.3%							5.3%

	Year Ended December 31, 2019							
		Adjustments						
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Changes of value of financial liabilities to fund investors(3)	Income tax effects(4)	Non-IFRS
	(RMB in thousands, unless specified)							
Profit for the year	10,102,950	–	2,201,722	(888,284)	1,704	250,706	(136,502)	11,532,296
Net margin	4.9%							5.6%

	Year Ended December 31, 2018							
		Adjustments						
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Changes of value of financial liabilities to fund investors(3)	Income tax effects(4)	Non-IFRS
	(RMB in thousands, unless specified)							
Profit for the year	13,477,747	(12,514,279)	12,380,668	(4,524,425)	6,207	42,504	(313,874)	8,554,548
Net margin	7.7%							4.9%

Notes:

(1) Includes fair value changes on equity investments and preferred shares investments deducting the cumulative fair value changes for investments (including the financial assets measured at fair value through profit or loss ("FAFVPL") and the investments using the equity method transferred from FAFVPL) disposed of in the current period, net gains/(losses) on deemed disposals of investee companies, the impairment provision for investments, re-measurement of loss of significant influence in an associate, re-measurement of investments transferring from FAFVPL to investments using the equity method.

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

(3) Represent the change of value of the financial liabilities payable to the fund investors, as a result of the change of fair value of the fund.

(4) Income tax effects of Non-IFRS adjustments.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Three months ended March 31, 2021 Compared to three months ended March 31, 2020

Revenue

Our revenue increased by 54.7% from RMB49.7 billion in the first quarter of 2020 to RMB76.9 billion (US$11.7 billion) in the first quarter of 2021.

Smartphones

Revenue from our smartphones segment increased by 69.8% from RMB30.3 billion in the first quarter of 2020 to RMB51.5 billion (US$7.9 billion) in the first quarter of 2021. We sold 49.4 million smartphone units in the first quarter of 2021, compared to 29.2 million units in the first quarter of 2020. The ASP of our smartphones was RMB1,042.1 (US$159.1) per unit in the first quarter of 2021, compared with RMB1,038.0 per unit in the first quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 40.5% from RMB13.0 billion in the first quarter of 2020 to RMB18.2 billion (US$2.8 billion) in the first quarter of 2021. The increase in revenue was primarily due to the strong growth in sales of certain IoT products, such as smart TVs, robot vacuum cleaners and electric scooters. Revenue from smart TVs and laptops increased by 21.7% from RMB4.6 billion in the first quarter of 2020 to RMB5.6 billion (US$0.9 billion) in the first quarter of 2021, mainly due to the recovery from lower sales caused by the pandemic in the first quarter of 2020.

Internet services

Revenue from our internet services segment increased by 11.4% from RMB5.9 billion in the first quarter of 2020 to RMB6.6 billion (US$1.0 billion) in the first quarter of 2021, mainly due to the increase in revenue from our advertising business. Our MAU on MIUI was 425.3 million in March 2021, an increase of 28.6% from 330.7 million in March 2020, while the MAU on MIUI in mainland China increased 6.4% year-over-year to 118.6 million in March 2021, driven by the strong growth of smartphone shipments.

Others

Other revenue increased by 17.2% from RMB492.6 million in the first quarter of 2020 to RMB577.1 million (US$88.0 million) in the first quarter of 2021, primarily due to the increase in revenue from the sales of materials and maintenance service.

Cost of Sales

Our cost of sales increased by 48.8% from RMB42.1 billion in the first quarter of 2020 to RMB62.7 billion (US$9.6 billion) in the first quarter of 2021.

Smartphones

Cost of sales related to our smartphones segment increased by 60.9% from RMB27.9 billion in the first quarter of 2020 to RMB44.9 billion (US$6.8 billion) in the first quarter of 2021, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 38.7% from RMB11.2 billion in the first quarter of 2020 to RMB15.6 billion (US$2.4 billion) in the first quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 28.2% from RMB2.5 billion in the first quarter of 2020 to RMB1.8 billion (US$0.3 billion) in the first quarter of 2021, primarily due to the decreased cost of our fintech business as a result of lower provision for credit loss allowance.

Others

Cost of sales related to others decreased by 8.5% from RMB499.4 million in the first quarter of 2020 to RMB456.7 million (US$69.7 million) in the first quarter of 2021.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 87.4% from RMB7.6 billion in the first quarter of 2020 to RMB14.2 billion (US$2.2 billion) in the first quarter of 2021.

The gross profit margin from our smartphones segment increased from 8.1% in the first quarter of 2020 to 12.9% in the first quarter of 2021, mainly due to fewer promotional activities as a result of supply shortage and the improved product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 13.4% in the first quarter of 2020 to 14.5% in the first quarter of 2021 due to higher revenue contribution from IoT products with higher gross profit margin.

The gross profit margin from our internet services segment increased from 57.1% in the first quarter of 2020 to 72.4% in the first quarter of 2021, mainly due to the higher revenue contribution of our advertising business and increased gross profit margin of our advertising and fintech businesses.

As a result of the foregoing, our gross profit margin increased from 15.2% in the first quarter of 2020 to 18.4% in the first quarter of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 58.6% from RMB2.6 billion in the first quarter of 2020 to RMB4.2 billion (US$0.6 billion) in the first quarter of 2021, primarily due to the increase in packaging and transportation expenses and compensation for selling and marketing personnel. Packaging and transportation expenses increased by 90.6% from RMB0.6 billion in the first quarter of 2020 to RMB1.1 billion (US$0.2 billion) in the first quarter of 2021, primarily due to the expansion of our overseas business in the first quarter of 2021. Compensation for selling and marketing personnel increased by 93.6% from RMB0.4 billion in the first quarter of 2020 to RMB0.8 billion (US$0.1 billion) in the first quarter of 2021, primarily due to the increase of selling and marketing personnel in the first quarter of 2021.

Administrative Expenses

Our administrative expenses increased by 26.4% from RMB781.5 million in the first quarter of 2020 to RMB987.7 million (US$150.8 million) in the first quarter of 2021, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 61.0% from RMB1.9 billion in the first quarter of 2020 to RMB3.0 billion (US$0.5 billion) in the first quarter of 2021, primarily due to the increase in compensation for research and development personnel and the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss increased by 493.1% from a gain of RMB0.3 billion in the first quarter of 2020 to a gain of RMB2.1 billion (US$0.3 billion) in the first quarter of 2021, primarily due to the increase in fair value of equity and preferred share investments in the first quarter of 2021.

Share of Gains of Investments Accounted for Using the Equity Method

Our share of gains of investments accounted for using the equity method decreased by 93.1% from a net gain of RMB130.7 million in the first quarter of 2020 to a net gain of RMB9.0 million (US$1.4 million) in the first quarter of 2021, primarily due to the gain on deemed disposal of an investee company in the first quarter of 2020.

Other Income

Our other income increased by 106.2% from RMB73.7 million in the first quarter of 2020 to RMB152.1 million (US$23.2 million) in the first quarter of 2021, primarily due to the increase of value-added tax and other tax refunds.

Other Losses, Net

Our other net losses decreased by 87.3% from RMB510.2 million in the first quarter of 2020 to RMB64.7 million (US$9.9 million) in the first quarter of 2021. This was mainly due to reduced foreign exchange losses.

Finance Income, Net

Our net finance income increased by 594.6% from RMB130.9 million in the first quarter of 2020 to RMB909.2 million (US$138.8 million) in the first quarter of 2021, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 334.4% from RMB294.2 million in the first quarter of 2020 to RMB1,278.0 million (US$195.1 million) in the first quarter of 2021, primarily due to the increase of operating profit in the first quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB7.8 billion (US$1.2 billion) in the first quarter of 2021, compared with a profit of RMB2.2 billion in the first quarter of 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenue increased by 19.4% to RMB245.9 billion (US$37.5 billion) for the year ended December 31, 2020, compared to RMB205.8 billion for the year ended December 31, 2019. Our revenues in mainland China increased by 7.8% from RMB114.6 billion in 2019 to RMB123.5 billion (US$18.8 billion) in 2020, and our overseas revenues increased by 34.2% from RMB91.2 billion in 2019 to RMB122.4 billion (US$18.7 billion) in 2020.

Smartphones

Revenue from our smartphones segment increased by 24.6% from RMB122.1 billion for the year ended December 31, 2019 to RMB152.2 billion (US$23.2 billion) for the year ended December 31, 2020, driven by growth in both sales volume and ASP. We sold 146.4 million smartphone units in 2020, an increase of 17.5% from 124.6 million units for the year ended December 31, 2019. The ASP of our smartphones increased by 6.1% from RMB979.9 per unit for the year ended December 31, 2019 to RMB1,039.8 (US$158.7) per unit for the year ended December 31, 2020. The increase in ASP was primarily due to the increase in sales of our 5G and mid- to high-end smartphones. In 2020, we sold approximately 10 million premium smartphones globally with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 8.6% from RMB62.1 billion for the year ended December 31, 2019 to RMB67.4 billion (US$10.3 billion) for the year ended December 31, 2020, primarily due to the strong growth in demand of certain IoT products, such as robot vacuum cleaners, routers and TWS earbuds. Revenue from smart TVs and laptops decreased by 7.0% from RMB24.2 billion for the year ended December 31, 2019 to RMB22.5 billion (US$3.4 billion) for the year ended December 31, 2020, mainly due to lower sales activities caused by supply constraints.

Internet services

Revenue from our internet services segment increased by 19.7% from RMB19.8 billion for the year ended December 31, 2019 to RMB23.8 billion (US$3.6 billion) for the year ended December 31, 2020, mainly due to the increase in the revenue from advertising and gaming businesses. Our MAU on MIUI increased by 28.0% from 309.6 million in December 2019 to 396.3 million in December 2020.

Others

Other revenue increased by 38.3% from RMB1,814.2 million for the year ended December 31, 2019 to RMB2,508.9 million (US$382.8 million) for the year ended December 31, 2020, primarily due to the increase in revenue from the installation services provided for certain IoT products.

Cost of sales

Our cost of sales increased by 18.0% from RMB177.3 billion for the year ended December 31, 2019 to RMB209.1 billion (US$31.9 billion) for the year ended December 31, 2020.

Smartphones

Cost of sales related to our smartphones segment increased by 22.6% from RMB113.3 billion for the year ended December 31, 2019 to RMB139.0 billion (US$21.2 billion) for the year ended December 31, 2020, mainly due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 6.7% from RMB55.1 billion for the year ended December 31, 2019 to RMB58.8 billion (US$9.0 billion) for the year ended December 31, 2020, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment increased by 30.2% from RMB7.0 billion for the year ended December 31, 2019 to RMB9.1 billion (US$1.4 billion) for the year ended December 31, 2020, primarily due to the increased costs of all of our major internet service businesses.

Others

Cost of sales in our others segment increased by 21.7% from RMB1,816.7 million for the year ended December 31, 2019 to RMB2,211.1 million (US$337.5 million) for the year ended December 31, 2020, primarily due to the increased costs from the installation services provided for certain IoT products.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 28.7% from RMB28.6 billion for the year ended December 31, 2019 to RMB36.8 billion (US$5.6 billion) for the year ended December 31, 2020. The gross profit margin from our smartphones segment increased from 7.2% for the year ended December 31, 2019 to 8.7% for the year ended December 31, 2020. In 2020, we launched several popular models such as *Mi 10 series, Redmi 9 series* and *Redmi Note 9* series which were highly regarded in the market for their outstanding performance. The gross profit margin from our smartphones segment increased in 2020, mainly due to the improvement of product mix and improved operating efficiencies for certain smartphone models.

The gross profit margin from our IoT and lifestyle products segment increased from 11.2% for the year ended December 31, 2019 to 12.8% for the year ended December 31, 2020, mainly due to the strong growth in certain IoT products with higher gross profit margin.

The gross profit margin from our internet services segment was 61.6% for the year ended December 31, 2020, compared with 64.7% for the year ended December 31, 2019, mainly due to the decline of gross profit margin from our fintech business. In 2020, gross profit margin of our fintech business declined due to the increased provision for loss allowance during the pandemic.

As a result of the foregoing, our gross profit margin increased from 13.9% for the year ended December 31, 2019 to 14.9% for the year ended December 31, 2020.

Selling and marketing expenses

Our selling and marketing expenses increased by 40.1% from RMB10.4 billion for the year ended December 31, 2019 to RMB14.5 billion (US$2.2 billion) for the year ended December 31, 2020, primarily due to increases in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased by 63.2% from RMB3.4 billion for the year ended December 31, 2019 to RMB5.5 billion (US$0.8 billion) for the year ended December 31, 2020, primarily due to our marketing efforts for premium smartphone models to increase brand awareness in 2020. Packaging and transportation expenses increased by 32.2% from RMB2.6 billion for the year ended December 31, 2019 to RMB3.5 billion (US$0.5 billion) for the year ended December 31, 2020, primarily due to the expansion of our overseas business.

Administrative expenses

Our administrative expenses increased by 20.7% from RMB3.1 billion for the year ended December 31, 2019 to RMB3.7 billion (US$0.6 billion) for the year ended December 31, 2020, primarily due to the increase in compensation for administrative personnel.

Research and development expenses

Our research and development expenses increased by 23.5% from RMB7.5 billion for the year ended December 31, 2019 to RMB9.3 billion (US$1.4 billion) for the year ended December 31, 2020, primarily due to increases in compensation for research and development personnel and the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss increased by 245.5% from a gain of RMB3.8 billion for the year ended December 31, 2019 to a gain of RMB13.2 billion (US$2.0 billion) for the year ended December 31, 2020, primarily due to the increase in fair value of our equity and preferred share investments for the year ended December 31, 2020.

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

Our share of (losses)/gains of investments accounted for using the equity method changed from net losses of RMB671.8 million for the year ended December 31, 2019 to net gains of RMB1,380.9 million (US$210.8 million) for the year ended December 31, 2020, primarily due to the dilution gain from the initial public offering of Kingsoft Cloud Holdings Limited (Nasdaq: KC).

Other income

Our other income decreased by 49.2% from RMB1,265.9 million for the year ended December 31, 2019 to RMB642.9 million (US$98.1 million) for the year ended December 31, 2020, primarily due to the decrease of investment income from short-term investments measured at fair value through profit or loss and lower dividend income received from our investee companies.

Other losses, net

Our other net losses increased by 64.5% from RMB226.4 million for the year ended December 31, 2019 to RMB372.5 million (US$56.8 million) for the year ended December 31, 2020. This is due to the recognition of foreign exchange losses in 2020, partially offset by the net gains on disposal of investments accounted for using the equity method.

Finance income/(expenses), Net

Our net finance income/(expenses) changed from net income of RMB402.4 million for the year ended December 31, 2019 to net expenses of RMB2,401.3 million (US$366.5 million) for the year ended December 31, 2020, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income tax expenses

Our income tax expenses decreased from RMB2.1 billion for the year ended December 31, 2019 to RMB1.3 billion (US$0.2 billion) for the year ended December 31, 2020, primarily due to (i) the additional deductibility of expense items; and (ii) the decrease of deferred tax expenses.

Profit for the year

As a result of the foregoing, we had a profit of RMB20.3 billion (US$3.1 billion) for the year ended December 31, 2020, compared with a profit of RMB10.1 billion for the year ended December 31, 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Revenues

Our revenue increased by 17.7% to RMB205.8 billion for the year ended December 31, 2019, compared to RMB174.9 billion for the year ended December 31, 2018. Our revenues in mainland China increased by

9.2% from RMB104.9 billion in 2018 to RMB114.6 billion in 2019, and our overseas revenues significantly increased by 30.4% from RMB70.0 billion in 2018 to RMB91.2 billion in 2019.

Smartphones

Revenue from our smartphones segment increased by 7.3% from RMB113.8 billion for the year ended December 31, 2018 to RMB122.1 billion for the year ended December 31, 2019, driven by growth in both sales volume and ASP. We sold 124.6 million smartphone units for the year ended December 31, 2019, compared to 118.7 million units for the year ended December 31, 2018. The ASP of our smartphones was RMB979.9 per unit for the year ended December 31, 2019, compared with RMB959.1 per unit for the year ended December 31, 2018. The increase in ASP was primarily due to the optimization of our product portfolio, shifting to higher ASP models in mainland China and in some overseas markets.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 41.7% from RMB43.8 billion for the year ended December 31, 2018 to RMB62.1 billion for the year ended December 31, 2019, primarily due to the strong growth in demand of our smart TVs, home appliances and other IoT products such as Mi Band, Mi Electric Scooter and Mi Air Purifier. Revenue from smart TVs and laptops increased by 33.1% from RMB18.2 billion for the year ended December 31, 2018 to RMB24.2 billion for the year ended December 31, 2019.

Internet services

Revenue from our internet services segment increased by 24.4% from RMB16.0 billion for the year ended December 31, 2018 to RMB19.8 billion for the year ended December 31, 2019. All of our major internet service businesses experienced solid revenue growth in 2019. Our MAU on MIUI increased by 27.9% from 242.1 million in December 2018 to 309.6 million in December 2019.

Others

Other revenue increased by 35.1% from RMB1,342.5 million for the year ended December 31, 2018 to RMB1,814.2 million for the year ended December 31, 2019, primarily due to the increase in revenue from out-of-warranty services as a result of greater hardware sales as well as the increase in revenue from sale of materials.

Cost of sales

Our cost of sales increased by 16.1% from RMB152.7 billion for the year ended December 31, 2018 to RMB177.3 billion for the year ended December 31, 2019.

Smartphones

Cost of sales related to our smartphones segment increased by 6.2% from RMB106.8 billion for the year ended December 31, 2018 to RMB113.3 billion for the year ended December 31, 2019, mainly due to increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 40.3% from RMB39.3 billion for the year ended December 31, 2018 to RMB55.1 billion for the year ended December 31, 2019, primarily due to the increased sales of our smart TVs and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 23.1% from RMB5.7 billion for the year ended December 31, 2018 to RMB7.0 billion for the year ended December 31, 2019, primarily due to the increase in sales of advertising and other internet value-added services.

Others

Cost of sales in our others segment increased by 86.1% from RMB976.4 million for the year ended December 31, 2018 to RMB1,816.7 million for the year ended December 31, 2019, primarily due to the increased costs of providing out-of-warranty services and the increased costs from sale of materials.

Gross profit and gross margin

As a result of the foregoing, our gross profit increased by 28.7% from RMB22.2 billion for the year ended December 31, 2018 to RMB28.6 billion for the year ended December 31, 2019. The gross profit margin from our smartphones segment increased from 6.2% for the year ended December 31, 2018 to 7.2% for the year ended December 31, 2019. The increase in gross margin mainly reflected the improvement of our product mix and more prudent operations during the early transition period from 4G to 5G technology in mainland China.

The gross profit margin from our IoT and lifestyle products segment increased from 10.3% for the year ended December 31, 2018 to 11.2% for the year ended December 31, 2019, mainly due to the increased gross profit margin from our smart TVs and laptops business. The gross profit margin from our internet services segment was 64.7% for the year ended December 31, 2019, compared with 64.4% for the year ended December 31, 2018. As a result of the foregoing, our gross margin increased from 12.7% for the year ended December 31, 2018 to 13.9% for the year ended December 31, 2019.

Selling and marketing expenses

Our selling and marketing expenses increased by 29.8% from RMB8.0 billion for the year ended December 31, 2018 to RMB10.4 billion for the year ended December 31, 2019, primarily due to increases in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased 34.9% from RMB2.5 billion for the year ended December 31, 2018 to RMB3.4 billion for the year ended December 31, 2019, primarily due to our elevated overseas marketing efforts in 2019. Packaging and transportation expenses increased by 36.7% from RMB1.9 billion for the year ended December 31, 2018 to RMB2.6 billion for the year ended December 31, 2019, primarily due to the strong growth in our overseas business.

Administrative expenses

Our administrative expenses decreased by 74.3% from RMB12.1 billion for the year ended December 31, 2018 to RMB3.1 billion for the year ended December 31, 2019, as the Company recognized a one-off share-based compensation expense in 2018. Excluding the one-off share-based compensation, our administrative expenses increased from RMB2.2 billion for the year ended December 31, 2018 to RMB3.1 billion for the year ended December 31, 2019, primarily due to the increase of administrative personnel as a result of the increased headcount to accommodate our business growth.

Research and development expenses

Our research and development expenses increased by 29.7% from RMB5.8 billion for the year ended December 31, 2018 to RMB7.5 billion for the year ended December 31, 2019, primarily due to the increase in compensation expenses relating to our research and development personnel and the expansion of our development projects.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 13.9% from a gain of RMB4.4 billion for the year ended December 31, 2018 to a gain of RMB3.8 billion for the year ended December 31, 2019, primarily due to changes in fair value of our equity and preferred share investments for the year ended December 31, 2019.

Share of losses of investments accounted for using the equity method

Our share of losses of investments accounted for using the equity method increased by 9.3% from RMB614.9 million for the year ended December 31, 2018 to RMB671.8 million for the year ended December 31, 2019, primarily due to the increase in share of loss of RMB733.2 million of iQIYI, Inc (Nasdaq: IQ), partially offset by the increase in share of gains from other investments.

Other income

Our other income increased by 49.9% from RMB844.8 million for the year ended December 31, 2018 to RMB1,265.9 million for the year ended December 31, 2019, primarily due to increase in dividend income received from our investee companies.

Other gains/(losses), net

Our other net gains/(losses) decreased by 206.2% from net gains of RMB213.3 million for the year ended December 31, 2018 to net losses of RMB226.4 million for the year ended December 31, 2019. This is due to the costs resulting from our financial guarantee.

Finance income, net

Our net finance income increased by 86.0% from RMB216.3 million for the year ended December 31, 2018 to RMB402.4 million for the year ended December 31, 2019, primarily due to the increase in our interest income.

Fair value changes of convertible redeemable preferred shares

Changes in the fair value of our convertible redeemable preferred shares were recorded as fair value changes of convertible redeemable preferred shares. We did not incur fair value changes of convertible redeemable preferred shares for the year ended December 31, 2019, compared to a gain of RMB12.5 billion for the year ended December 31, 2018. After the completion of our initial public offering, all of our convertible redeemable preferred shares were automatically converted to the Class B Shares and thus we no longer incurred fair value changes of convertible redeemable preferred shares after the fourth quarter of 2018.

Income tax expenses

Our income tax expenses increased from an income tax expense of RMB0.4 billion for the year ended December 31, 2018 to an income tax expense of RMB2.1 billion for the year ended December 31, 2019, primarily due 1) to an increase of profit in mainland China for the year ended December 31, 2019 compared to the year ended December 31, 2018 and 2) the decrease of deferred tax assets.

Profit for the year

As a result of the foregoing, we had a profit of RMB10.1 billion for the year ended December 31, 2019 compared with a profit of RMB13.5 billion for the year ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

We had cash and cash equivalents of RMB30.2 billion, RMB25.9 billion and RMB54.8 billion (US$8.4 billion) as of December 31, 2018, 2019 and 2020, respectively. As of March 31, 2021, we had cash and cash equivalents of RMB34.3 billion (US$5.2 billion).

On April 2, 2020, we issued Panda bonds in the Chinese interbank bond market in the amount of RMB1 billion with a maturity date of 365 days and a coupon rate of 2.78%.

On April 29, 2020, the Issuer issued US$600 million 3.375% senior notes due 2030 unconditionally and irrevocably guaranteed by our Company.

On December 4, 2020, we completed of a placing of a total of 1,000,000,000 placing shares at HK$23.70 for each placing share owned by Smart Mobile Holdings Limited to not less than six placees who and whose ultimate beneficial owner(s) are independent third parties and allotted and issued 1,000,000,000 subscription shares at HK$23.70 per subscription share under the general mandate to Smart Mobile Holdings (the "2020 Placing and Subscription").

On December 17, 2020, the Issuer issued zero coupon guaranteed convertible bonds due 2027 guaranteed by the Company in the aggregate principal amount of US$855 million at an initial conversion price of HK$36.74 per conversion share (subject to adjustments). As of March 31, 2021, no 2027 Bonds had been converted into new Ordinary Shares.

Other than the funds raised through our initial public offering in July 2018 and the financings described above, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. As of December 31, 2020 and March 31, 2021, we had total borrowings of RMB17.6 billion (US$2.7 billion) and RMB21.0 billion (US$3.2 billion), respectively.

We had a net cash position as of March 31, 2021 and December 31, 2020, respectively. Net cash equals to sum of our cash and cash equivalents, restricted cash and short-term bank deposits less our total borrowings.

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

	For the year ended December 31,				For the three months ended March 31,		
	2018	2019	2020		2020	2021	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(Unaudited)	(Unaudited)	
	(in millions)						
Net cash (used in)/ generated from operating activities	(1,414.6)	23,810.4	21,878.5	3,339.3	(8,205.3)	1,454.0	221.9
Net cash (used in) / generated from investing activities	(7,508.0)	(31,570.1)	(17,678.9)	(2,698.3)	8,210.4	(25,546.7)	(3,899.2)
Net cash generated from/ (used in) financing activities	26,574.2	3,121.2	26,215.6	4,001.3	(1,231.3)	3,583.6	547.0
Net increase/(decrease) in cash and cash equivalents	17,651.6	(4,638.5)	30,415.2	4,642.3	(1,226.2)	(20,509.1)	(3,130.3)
Cash and cash equivalents at beginning of the year/ period	11,563.3	30,230.1	25,919.9	3,956.1	25,919.9	54,752.4	8,356.8
Effects of exchange rate changes on cash and cash equivalents	1,015.2	328.3	(1,582.7)	(241.6)	380.0	36.2	5.5
Cash and cash equivalents at end of the year/period	30,230.1	25,919.9	54,752.4	8,356.8	25,073.7	34,279.5	5,232.1

Net Cash (Used in)/Generated from Operating Activities

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

In the first quarter of 2021, net cash generated from our operating activities amounted to RMB1.5 billion (US$0.2 billion), representing cash generated from operations of RMB2.0 billion (US$0.3 billion) minus income tax paid of RMB0.5 billion (US$0.1 billion). Cash generated from operations was primarily attributable to our profit before income tax of RMB9.1 billion (US$1.4 billion), mainly adjusted by an increase in trade payables of RMB10.5 billion (US$1.6 billion), partially offset by an increase in inventories of RMB8.6 billion (US$1.3 billion), an increase in prepayments and other receivables of RMB6.8 billion (US$1.0 billion) and an increase in trade and billing receivables of RMB3.2 billion (US$0.5 billion).

In 2020, net cash generated from operating activities amounted to RMB21.9 billion (US$3.3 billion), representing cash generated from operations of RMB23.8 billion (US$3.6 billion) minus income tax paid of RMB1.9 billion (US$0.3 billion). Cash generated from operations was primarily due to our profit before income tax of RMB21.6 billion (US$3.3 billion), as adjusted by (i) the add-back of non-cash items, primarily comprising impairment provision for inventories of RMB3.7 billion (US$0.6 billion), interest expense of RMB3.4 billion (US$0.5 billion), partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB13.2 billion (US$2.0 billion), and (ii) changes in working capital, which primarily comprised an increase in inventories of RMB11.6 billion (US$1.8 billion), an increase in trade payables of RMB10.3 billion (US$1.6 billion), an increase in advance from customers of RMB3.8 billion (US$0.6 billion).

In 2019, net cash generated from operating activities amounted to RMB23.8 billion, representing cash generated from operations of RMB26.0 billion *minus* income tax paid of RMB2.2 billion. Cash generated from operations was primarily due to our profit before income tax of RMB12.2 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising impairment provision for inventories of RMB3.9 billion and share-based compensation of RMB2.2 billion, partially offset by fair value gains on long-term investments measured at fair value through profit or loss of RMB3.8 billion, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB13.5 billion, an increase in inventories of RMB7.0 billion, an increase in loan receivables of RMB3.4 billion and an increase in advance from customers of RMB3.8 billion.

In 2018, net cash used in operating activities amounted to RMB1.4 billion, representing cash generated from operations of RMB0.1 billion minus income tax paid of RMB1.5 billion. Cash generated from operations was primarily due to our profit before income tax of RMB13.9 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising share-based compensation of RMB12.4 billion and impairment provision for inventories of RMB3.0 billion, partially offset by fair value changes of convertible redeemable preferred shares of RMB12.5 billion and fair value gains on long-term investments measured at fair value through profit or loss of RMB4.4 billion, and (ii) changes in working capital, which primarily comprised an increase in inventories of RMB16.1 billion, an increase in loan receivables of RMB2.8 billion, an increase in prepayments and other receivables of RMB9.5 billion and an increase in trade payables of RMB12.6 billion.

Net Cash (Used in)/Generated from Investing Activities

For the first quarter of 2021, our net cash used in investing activities was RMB25.5 billion (US$3.9 billion), which was primarily attributable to the net changes of short-term bank deposits of RMB17.2 billion (US$2.6 billion) and the net changes of long-term bank deposits of RMB3.8 billion (US$0.6 billion).

In 2020, our net cash used in investing activities was RMB17.7 billion (US$2.7 billion), which was mainly attributable to cash used in placement of long-term bank deposits of RMB9.0 billion (US$1.4 billion), net cash used in purchase and settlements of short-term investments measured at fair value through profit or loss of RMB5.9 billion (US$0.9 billion).

In 2019, our net cash used in investing activities was RMB31.6 billion, which was mainly attributable to net cash used in the placement and withdrawal of short-term bank deposits of RMB20.2 billion and net cash used in purchase and settlement of short-term investments measured at fair value through profit or loss of RMB9.8 billion.

In 2018, our net cash used in investing activities was RMB7.5 billion, which was mainly attributable to capital expenditures of RMB3.8 billion, net cash used in the purchase and disposal of long-term investments measured at fair value through profit or loss of RMB1.7 billion, net cash used in the placement and withdrawal of short-term bank deposits of RMB1.2 billion, the net cash used in purchase and settlement of wealth management products (including short-term investments measured at fair value through profit or loss and short-term investments measured at amortized cost) of RMB1.0 billion.

Net Cash Generated from/(Used in) Financing Activities

For the first quarter of 2021, our net cash generated from financing activities was RMB3.6 billion (US$0.5 billion), which was primarily attributable to the net changes of borrowings of RMB3.3 billion (US$0.5 billion).

In 2020, our net cash generated from financing activities was RMB26.2 billion (US$4.0 billion), which was mainly attributable to net cash generated from issuance of shares upon placement of RMB19.9 billion (US$3.0 billion), issuance of convertible bonds of RMB5.8 billion (US$0.9 billion) and proceeds from fund investors of RMB3.4 billion (US$0.5 billion), partially offset by repayment of and proceeds from borrowings of RMB2.0 billion (US$0.3 billion).

In 2019, our net cash generated from financing activities was RMB3.1 billion, which was mainly attributable to net cash generated from proceeds and repayment of borrowings of RMB6.6 billion, partially offset by payments for shares repurchase of RMB2.9 billion. In the future, we may continue to conduct share repurchase activities from time to time.

In 2018, our net cash generated from financing activities was RMB26.6 billion, which was mainly attributable to net proceeds from issuance of ordinary shares relating to the initial public offering of RMB23.2 billion, proceeds from fund investors of RMB2.8 billion and net cash generated from withdrawal and placement of restricted cash of RMB0.9 billion.

INDEBTEDNESS

For a summary of our material indebtedness, see “Description of Other Material Indebtedness.”

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

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

	For the year ended December 31,				For the three months ended March 31,	
	2018	2019	2020		2021	
	RMB	RMB	RMB	US$	RMB	US$
					(Unaudited)	
	(in millions)					
Capital expenditures	3,785.3	3,405.2	3,025.5	461.8	1,131.0	172.6
Placement for long-term investments[1]	1,999.8	3,987.2	8,989.9	1,372.1	2,138.2	326.4
Total	**5,785.1**	**7,392.4**	**12,015.4**	**1,833.9**	**3,269.2**	**499.0**

Note:

(1) Placement for long-term investments represents equity investments and preferred share investments.

Our capital expenditure primarily included disbursement on property and equipment resulting from the construction of and improvements made to our office complex, as well as on our intangible assets.

We believe that our existing cash and cash equivalents, cash flows from operation and term deposits will be sufficient to meet the anticipated cash needs for our operating activities and capital expenditures for at least the next 12 months.

CONTRACTUAL OBLIGATIONS

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

Capital Commitments

	As of December 31,				As of March 31,	
	2018	2019	2020		2021	
	RMB	RMB	RMB	US$	RMB	US$
					(Unaudited)	
	(in millions)					
Property and equipment	1,825.3	1,747.0	1,558.0	237.8	1,347.4	205.6
Intangible assets	57.8	28.8	33.4	5.1	33.5	5.1
Investments	137.2	217.5	529.0	80.7	1,316.7	201.0
Total	**2,020.3**	**1,993.3**	**2,120.4**	323.6	2,697.6	411.7

Operating Lease Commitments

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

	As of December 31,				As of March 31,	
	2018	2019	2020		2021	
	RMB	RMB	RMB	US$	RMB	US$
					(Unaudited)	
	(in millions)					
Not later than 1 year	560.9	305.2	620.4	94.7	158.7	24.2
Later than 1 year and not later than 5 years	385.0	–	41.7	6.4	14.0	2.1
Later than 5 years	83.3	–	14.9	2.2	0.0	–
Total	**1,029.2**	**305.2**	**677.0**	**103.3**	**172.7**	26.3

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of March 31, 2021, except for financial guarantee contracts, we had not entered into any off-balance sheet arrangements.

FINANCIAL RISK DISCLOSURE

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our senior management. For more information on the financial risks, see note 3 to the consolidated financial statement included elsewhere in this offering memorandum.

Market Risk

Foreign Exchange Risk

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

We will continue to monitor changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact.

Interest Rate Risk

Our interest rate risk primarily arose from borrowings with floating and fixed rates, loan receivables, long-term bank deposits, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose us to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

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

Price Risk

We are exposed to price risk in respect of our long-term investments and short-term investments measured at fair value through profit or loss held by us. We are not exposed to commodity price risk. To manage our price risk arising from the investments, we diversify our portfolio. Each investment is managed by senior management on a case-by-case basis. The sensitivity analysis is performed by our management.

Credit Risk

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

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

To manage risk arising from trade receivables, we have policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and our management performs ongoing credit evaluations of our counterparties. The credit period granted to our customers is usually no more than 180 days and the credit quality of these customers are assessed, which takes into account their financial position, past experience and other factors.

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

Financial guarantee contracts are contracts that require us to make specified payments to reimburse the creditors (i.e. banks and financial institutions) for a loss incurred if a specified debtor fails to make payments when due. For financial guarantee contracts, we have taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert.

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

Liquidity Risk

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

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

Our Business Model

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

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

Hardware

We offer a broad range of hardware products developed in-house or in collaboration with our ecosystem partners. Innovation, quality, design and user experience are ingrained in all of our products regardless of whether they are developed in-house or in collaboration with our partners. We strive to offer our products at price points that are accessible to the widest user base to enjoy broad adoption and high retention.

"Smartphone x AIoT" is at the core of our strategy. Smartphones will remain as the cornerstone of our business, while our AIoT platform will revolve around smartphones to build up a smart living ecosystem, enlarge our user base and enhance our user experience. Smartphones combined with our AIoT platform will create multiplier effects to strengthen the economic moats for our business.

We have adopted a dual-brand strategy for our smartphones, with Xiaomi focusing on pioneering advanced technologies and establishing itself in the mid- to high-end markets, and Redmi brand positioned to pursue the ultimate price-performance ratio.

Besides smartphones, we also focus on designing and developing a range of cutting-edge in-house IoT hardware products, including laptops, smart TVs, AI speakers, smart routers, smart watches, smart air conditioners, smart refrigerators and other large appliances.

We also curate a wide range of additional IoT products through investments in our ecosystem partners over the years. This has enabled us to build one of the world's leading consumer IoT platforms. Xiaomi is the number one consumer IoT platform globally in terms of the number of connected devices as of December 31, 2020, excluding smartphones and laptops, according to iResearch. As of March 31, 2021, there were 351.1 million connected IoT devices (excluding smartphones and laptops) on our AIoT platform. This active and integrated suite of connected technology products enhances the lives of our users and constitutes a proprietary delivery platform for our internet services. We also curate a range of lifestyle products to further drive brand awareness and traffic to our sales points.

New Retail

Our highly efficient omni-channel new retail distribution platform is a core component of our strategy, allowing us to operate efficiently while simultaneously extending our user reach and enhancing our user experience. Since inception, we have focused on direct online sales of our products to maximize efficiency and build a direct digital relationship with our users. In recent years, we have continually expanded our offline retail network through our Mi Home stores, among others. Moreover, to establish our offline new retail presence in lower-tier cities and rural areas of mainland China, we have built a sizable authorized store network. As of April 30, 2021, we had established over 5,500 offline retail stores in mainland China. Our offline retail network allows us to broaden our reach and provide a richer user experience, while maintaining similar efficiency and the same product prices as our online channels. Our efficient omni-channel sales strategy enables us to provide our products at accessible price points to the largest user base.

Internet Services

We provide internet services to give our users a complete mobile internet experience. In March 2021, we had 425.3 million MAU globally and 118.6 million MAU in mainland China on MIUI, our proprietary operating system built on the Android kernel. MIUI fully embraces the Android ecosystem, including all mobile apps. It functions as an open platform for us to deliver our wide range of internet services, such as content, entertainment, financial services and productivity tools. The connectivity between our devices and the seamless integration between smart hardware and internet services enable us to provide our users with a better user experience. Compared to other internet platforms that acquire new users at high costs, we leverage the sale of our hardware to acquire users at a profit.

Network Effects

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

This business model has led to powerful network effects across our platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we are set to deliver a better and richer user experience, which will, in turn, attract more users to our platform.

OUR STRENGTHS

We believe that the following strengths contribute to our success and are differentiating factors that set us apart from our peers.

Triathlon Business Model

We believe the three components of our unique business model are complementary to each other, creating robust barriers to entry for potential competitors and enabling us to create a sustainable business model that cannot be easily replicated. The seamless integration of our smart hardware products, new retail and internet services has led to powerful network effects across our platform, which enhances user experience, engagement and retention. As more of our products and services are connected, we will deliver a better and richer user experience, which will, in turn, attract more users to our products and services.

Smartphones and IoT products form a valuable platform to attract new users and serve as the gateway to providing our users with internet services. In addition, our omni-channel retail strategy, comprised of highly efficient and complementary online and offline retail channels, enables us to sell our products at highly accessible prices, increasing our reach and depth of product distribution.

Leveraging our innovative hardware portfolio, superior user experience and efficient new retail channels, we have accumulated a large, active and loyal user base, which we can effectively monetize through advertising and other internet value-added services. As a result of our business model, we have successfully diversified our revenue streams by boosting revenue contribution from sales of IoT and lifestyle products, as well as internet services, which have rich monetization potential with proven user stickiness and higher gross margins.

Scale and Leadership

We have achieved leading positions in our major products and services categories. According to Canalys, in both the fourth quarter of 2020 and the first quarter of 2021, Xiaomi ranked third in the global smartphone market in terms of shipments, with a global market share of 14.1% in the first quarter of 2021. In addition, in the first quarter of 2021, we ranked No. 1 in 12 countries and regions, No. 2 in Europe for the first time, rose to No. 3 in Latin America, and ranked among the top five smartphone companies in 62 countries and regions globally.

We are also a global leader in the IoT sector and many specific product categories. Xiaomi is the No. 1 consumer IoT platform globally in terms of the number of connected devices as of December 31, 2020, excluding smartphones and laptops, according to iResearch. As of March 31, 2021, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 351.1 million. According to AVC, in the first quarter of 2021, our TV shipments ranked No. 1 in mainland China for the ninth consecutive quarter, and maintained a top 5 position globally. Our MIUI system has also seen significant growth in recent years, with a global user base of 425.3 million MAU in March 2021.

Brand and Passionate Users

We have created an internationally renowned brand through our dedication to providing our users with high-quality products and services, which has been recognized by many global honors and accolades. For example, we have been listed among BrandZ's Top 100 Most Valuable Global Brands for two consecutive years. In addition, August 2020 marked our second entry into the Fortune Global 500 list, ranking 422nd. In April 2021, we were included in BCG's "50 Most Innovative Companies 2021" list, ranking 31st. In August 2020, we were named in the "Derwent Top 100 Global Innovators 2020" list, being one of three mainland China companies to make the list.

Leveraging our powerful brand value and reputation, we have amassed a large and rapidly growing user base. Within our user base, we have a highly dedicated and intensely loyal group of users who have nicknamed themselves Mi Fans. These fans are very passionate about Xiaomi and own many of our products. For example, as of March 31, 2021, the number of users with five or more devices connected to our AIoT platform (excluding smartphones and laptops) reached 6.8 million. Furthermore, our Mi Fans actively follow and support the latest developments of our Company. This extends beyond mainland China to places such as India, Indonesia and Spain, where thousands of avid Mi Fans queued up for hours outside new flagship stores on their opening days. In addition, we also benefit from our enthusiastic Mi Fans through their passionate word-of-mouth marketing and their constructive product feedback, which helps us to increase brand awareness and improve our products and services. We have continually developed innovative internet services to expand and enrich the experience of users and to enhance their loyalty to Xiaomi's online communities and increase their level of engagement.

Innovation and Design

We have amassed a strong track record in innovation and design. We have achieved many technological breakthroughs, which have been consistently recognized. In 2020, Xiaomi ranked fifth globally in the World Intellectual Property Organization's Hague System for the International Registration of Industrial Designs with 516 design registrations, becoming the first Chinese company to break into the top five.

In February 2021, we debuted our first quad-curved waterfall display concept smartphone which features an 88° hyper quad-curved screen that is extended to cover almost the entire frame of the smartphone. By making the smartphone body free of ports or buttons, we have marked another revolutionary exploration into the next generation of smartphone design. Our ultra-premium flagship product Mi MIX FOLD comes equipped with 2K+ foldable display, which offers a remarkable large-screen interactive experience in imaging, reading, video, gaming, etc.

We have constantly improved our own operating system MIUI by incorporating direct feedback from our Mi Fans and updating the MIUI developer version on a regular basis.

We leverage our in-house design capabilities and continuous feedback from our users and Mi Fans to develop high-quality products and services with advanced features and compelling aesthetic designs. As of March 31, 2021, we have received numerous industrial design awards for our smartphones and IoT products, including the Red Dot: Best of the Best award, the iF Gold award, the International Design Excellence Award (IDEA) Gold award and the Good Design award. These awards are further testaments to our industry-leading design capabilities and craftsmanship.

Focus on Technology

Technology innovation builds a solid foundation for Xiaomi's sustainable growth. In February 2021, we were listed among "Top 100 Global Innovator" by Clarivate Analytics for the third consecutive year. With our dedication to advanced technology, we took strides across an array of research and development programs to further enhance user experience.

In 2020, we achieved significant breakthroughs in smartphone camera technology, with our Mi 10 Pro and Mi 10 Ultra both topped the DXOMARK camera rankings, retaining the top spots together for 120 days. In the first quarter of 2021, our Mi 11 Ultra achieved a DXOMARK score of 143 for overall camera performance, once again ranking 1st globally at the time of launch. We also debuted our first self-developed Image Signal Processor *Surge C1* on our Mi MIX FOLD. Surge C1 enables more accurate auto focus, auto exposure and auto white balance, boasting another remarkable achievement in our imaging technology. The Mi MIX FOLD also features the first liquid lens in a smartphone, replacing the traditional optical lens with a transparent fluid wrapped in film, and allowing telephoto as well as shooting with micro details.

Moreover, we debuted the Mi 11 Ultra with an innovative battery technology featuring silicon-oxygen anode battery and new three-phase cooling technology, which rapidly dissipates heat through three substance state changes among solids, liquids and gasses. Notably, we released our 200W wired charging solutions which enables full charging of a 4,000mAh battery in 8 minutes. This cutting edge technology again spearheads the wireless charging solutions in the industry.

Furthermore, we introduced our smart factory in 2020, which is equipped with a fully automated production line spanning processes from production management to machine processing, packaging and storage. Our smart factory is capable of producing one million high-end smartphones annually, and serves as an experimental base for the next-generation manufacturing equipment and automated production lines. It also has a mega laboratory that engages in the research and development of new materials and cutting-edge technologies. The smart factory enables us to enhance control over the full production cycle across research and development, technology implementation, and manufacturing processes, fortifying our leadership in smart manufacturing.

To date, Xiaomi has established a large engineering team consisting of over 10,000 talented engineers. Going forward, we will continue to advance our investment and recruit more engineers to strengthen our R&D capabilities. We look to further broaden Xiaomi's technological frontier across key areas, including camera imaging, screen display, fast charging/wireless charging, audio, IoT platform and connectivity, AI and voice interaction, 5G/6G, Big Data and cloud-based services, digitalization and workflow management system, and smart manufacturing.

Global

We have successfully expanded overseas in recent years. We generated 40.0%, 44.3%, 49.8% and 48.7% of our revenues in overseas markets in 2018, 2019, 2020 and the first quarter of 2021, respectively. As of March 31, 2021, our products were sold in over 100 countries and regions around the world. According to Canalys, our market share in the first quarter of 2021 ranked among the top five smartphone companies in terms of shipments in 62 countries and regions globally, and No. 1 in 12 countries and regions.

Our smartphones business has continued to make significant progress globally. In the first quarter of 2021, our global smartphone shipments increased by 69.1% year-over-year to 49.4 million units. According to Canalys, in the first quarter of 2021, Xiaomi ranked third in the global smartphone market in terms of shipments, with a global market share of 14.1%. In particular, we ranked in the top 2 in Europe with an 85.1% year-over-year increase in smartphone shipments and a market share of 22.7%. Notably, we ranked No. 1 in Eastern Europe for the second consecutive quarter and retained the top 3 position in Western Europe. According to Canalys, we rose to No. 3 in Latin America with an 11.5% market share, and we ranked No. 3 in the Middle East and No. 4 in Africa in the first quarter of 2021.

Furthermore, our IoT business has continued its strong growth trajectory in overseas markets. In the first quarter of 2021, revenue from our IoT and lifestyle products in overseas markets increased by 81.1% year-over-year in the quarter. Going forward, we aim to continue strengthening our position in overseas markets and bring a wide range of quality and innovative products to global users. Leveraging our brand and distribution channels, we aim to drive cross-selling between our IoT products and smartphones and capture a greater share of the large overseas IoT market.

Efficiency

We operate with a relentless focus on operational efficiency in order to realize overall cost savings, which we return to our users.

Our online sales channels are highly efficient, as evidenced by their low distribution costs. Leveraging the growth of e-commerce, we are able to capture more customers who prefer to purchase through our online channels. Mi Store and Youpin are our own direct e-commerce platforms. We also cooperate with third-party e-commerce platforms to leverage their sales and marketing expertise, logistics and payment infrastructure.

In addition to our online channels, we have built a complementary offline retail network. Our offline retail network is comprised of our Mi Home stores as well as third-party offline retail partners to whom we supply our products directly. Our Mi Home stores provide users with an immersive opportunity to experience our products first-hand, which increases their propensity to purchase our products offline and online. As of April 30, 2021, we had established over 5,500 offline retail stores in mainland China.

To ensure high operating efficiency, we built a digitized new retail system in mainland China. By using our proprietary retail management app, we and our business partners can consolidate and analyze real-time data including user traffic, in-store sales, and inventory to support intelligent business decision-making. Our big-data capabilities will bolster the core competency of our offline retail operations, optimizing overall operating efficiency and improving return on investment for each store.

Our operational efficiency also extends to our supply chain. Our economies of scale allow us to enhance our operating leverage with our assembly and component third-party partners, which in turn allows us to benefit from more beneficial pricing terms and optimize our cost structure.

Strong Financial Profile

We have demonstrated strong profitability and generate positive cash flows from our operations, with a negative cash conversion cycle. In 2020, we had a net profit of RMB20.3 billion (US$3.1 billion) and a non-IFRS adjusted net profit of RMB13.0 billion (US$2.0 billion). For the three months ended March 31, 2021, we had a net profit of RMB7.8 billion (US$1.2 billion) and a non-IFRS adjusted net profit of RMB6.1 billion (US$0.9 billion). Our net margin and non-IFRS net margin in 2020 were 8.3% and 5.3%, respectively. Our net margin and non-IFRS net margin for the three months ended March 31, 2021 were 10.1% and 7.9%, respectively. We also had net cash generated from operating activities of RMB21.9 billion (US$3.3 billion) and RMB1.5 billion (US$0.2 billion) in 2020 and for the three months ended March 31, 2021, respectively.

We have also maintained a strong and stable cash balance and have additional liquidity provided by our equity investments. We had cash and cash equivalents of RMB54.8 billion (US$8.4 billion) and RMB34.3 billion (US$5.2 billion) as of December 31, 2020 and March 31, 2021, respectively. Furthermore, we enjoy the additional liquidity provided by our short-term investments. We had short-term investments measured at fair value through profit or loss of RMB22.4 billion (US$3.4 billion) and RMB22.9 billion (US$3.5 billion) in 2020 and for the three months ended March 31, 2021.

Founders and Management Team

Xiaomi is led by our Founder, Chairman and Chief Executive Officer, Lei Jun, a highly respected entrepreneur and angel investor. Mr. Lei previously co-founded successful internet companies such as

Kingsoft (SEHK Stock Code: 3888) and Joyo.com (sold to Amazon in 2004) and was a key investor in leading internet companies such as JOYY Inc. (Nasdaq ticker: YY) and UCWeb (sold to Alibaba in 2014). Lei Jun's proven track record and extensive experience in software, e-commerce, investment and mobile internet services provide clear leadership and a strong commitment to our mission and execution.

Mr. Lei's iconic leadership has been recognized globally. In 2013, Lei Jun was awarded the "China Economic Figures of the Year" award by China Central Television (CCTV). In 2015, Lei Jun was the only Chinese entrepreneur among the "World's 100 Most Influential People of the Year" selected by TIME Magazine. He also received the "Asia Game Changer Award" from the Asia Society in the same year. In November 2017, Lei Jun was elected Vice Chairman of the All-China Federation of Industry and Commerce. In December 2017, he was also elected Vice President of China Quality Association. In 2020, Lei Jun was honored with the title of "National Advanced Individual of Private Economy Fighting against COVID-19" and the title of "Beijing Model Worker."

Our co-founders and other senior management are composed of engineers, designers or executives with decades of extensive experience and strong track record in the technology, internet, and mobile communication industries. They worked at prominent global technology companies, including Google, Qualcomm, Microsoft and Motorola, before joining Xiaomi. They have been instrumental in instilling a genuinely transparent, efficient, inclusive and accessible corporate culture. This culture is the powerful driving force behind our collective passion to deliver advancements in innovation, quality, design and user experience across all of our products and services.

OUR STRATEGIES

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

Unwavering focus on technological innovation, quality, design and user experience

We will continue to pursue artisanal craftsmanship in all our products and relentlessly focus on technological innovation, quality and design, to drive high-quality user experience and grow our loyal and engaged user base. We will continue to invest in research and development and prudently manage our high-quality human capital to maintain our leadership position in innovation, quality, design and user experience. Moving forward, we look to further broaden Xiaomi's technological frontier across key areas, including camera imaging, screen display, fast charging/wireless charging, audio, IoT platform and connectivity, AI and voice interaction, 5G/6G, Big Data and cloud-based services, digitalization and workflow management system, and smart manufacturing.

Execute our core Smartphone x AIoT strategy

We will continue to pursue our core strategy of "Smartphone x AIoT" and drive synergies between the two business segments in various aspects spanning interconnectivity, product design, supply chain and marketing strategy, further strengthening the moats for our business. We strive to connect all facets of our users' life and fortify our leading position in smart living. We will continue to expand our product portfolio by focusing on innovation and product design, offer more intelligent user experiences and application scenarios, and enhance the connectivity and compatibility of our devices across our platform. We will further promote our open AIoT platform to attract more users and collaborate with more partners, thereby further enhancing the products and services available on our AIoT platform.

Maintain relentless efficiency

We will continue to enhance our highly efficient online and offline retail channels, boost supply chain cost efficiencies and drive distribution efficiencies to ensure the continued price accessibility of our products and services to grow our user base. Our highly efficient omni-channel new retail distribution platform is a core component of our strategy, which enables us to maintain high efficiencies while broadening the coverage of user base and enhancing user experience.

Enrich our internet services

We will further develop and diversify our internet services offerings to enhance user engagement and improve user experience. We believe that internet services will enable us to continue to grow our user base and increase monetization, which will boost our financial growth and profitability. We intend to leverage our advanced big data and artificial intelligence capabilities to analyze our proprietary data to improve user experience via smarter and more customized services.

Broaden our overseas expansion

Overseas markets offer us tremendous room to grow. We intend to leverage our strong execution capabilities to continue to extend and localize our unique business model in key overseas markets in order to grow our user base and increase user monetization. We will further boost our market share in places where we have already established a strong foothold, including India, Europe, Southeast Asia and Latin America. We will also actively explore opportunities in new regions, such as Africa.

Invest in and expand our ecosystem

We will continue to identify, invest in and incubate promising companies, primarily in the fields of AIoT and mobile internet services, in order to further expand our ecosystem. We aspire to strengthen our ecosystem partners and enable them to grow rapidly and develop innovative, high-quality, well-designed products and services with exceptional user experience. By expanding our ecosystem, we can accelerate the rollout of new complementary products and services, enabling us to grow our user base in mainland China and globally.

On March 30, 2021, we announced our plan to establish a wholly-owned subsidiary to manage our smart electric vehicle business. The initial phase of the investment will be RMB10 billion, with the total investment amount over the course of the next 10 years estimated to be US$10 billion. Mr. Lei Jun will concurrently serve as the chief executive officer of the smart electric vehicle business. We hope to offer quality smart electric vehicles to let everyone in the world enjoy smart living anytime, anywhere. Our broad user base, extensive experience in integrating software and hardware, substantial investment in key technologies and resources across the value chain position us well to become a successful player in the smart electric vehicle space.

Our Business

Hardware

"Smartphone x AIoT" is at the core of our strategy. Smartphones will remain as the cornerstone of our business, while our AIoT platform will revolve around smartphones to build up a smart living ecosystem, enlarge our user base and enhance our user experience. Our product portfolio includes a wide range of products developed in-house or in collaboration with our ecosystem partners. We offer our full line-up of products to consumers in mainland China. In the rest of the world, the availability of our hardware products varies by country and region.

Diverse products. We design and develop a suite of core in-house products, including smartphones, laptops, smart TVs, AI speakers, smart routers, smart watches, smart air conditioners, smart refrigerators and other large appliances. We also curate a wide range of additional products through investments in our ecosystem partners over the years. In collaboration with us and centered around our users, our ecosystem partners produce a wide range of IoT and lifestyle products, such as smart home appliances, wearable products and transportation devices. Regardless of whether the products are designed and produced in-house or in collaboration with our ecosystem partners, the products share the same philosophy and are distinguished by a unique combination of innovative technologies, high-quality, aesthetically pleasing designs, user-oriented features and price accessibility.

Innovative technologies and high-quality, artisanal craftsmanship. We believe our brand series, primarily consisting of Mi, Redmi, Mi Home and Youpin, are synonymous with high quality and aesthetically pleasing products across all categories. We believe our users have confidence that they can expect the same high level of quality and artisanal craftsmanship from all our products. To reinforce this brand identity, we only work with hardware and lifestyle products partners who share our product and design philosophy.

Exceptional user experience. Our smartphones and smart TVs are designed for optimal integration with our MIUI operating system. Our IoT products are seamlessly integrated with our own Mi Home app and AI voice assistant, which allows us to tap into a wide variety of application scenarios. Our proprietary AI voice assistant can control a wide range of product models on our platform, including smart lamps, Mi TVs, Mi Air Purifiers and a variety of other connected smart home products.

In the following sections, the suggested retail prices cited are suggested retail prices in mainland China. For markets outside of mainland China, suggested retail prices are similar to those in mainland China but are adjusted for local markets.

Core In-House Products

Smartphones

We have adopted a dual-brand strategy for our smartphones, since Xiaomi and Redmi became independent brands in January 2019. Xiaomi focuses on pioneering advanced technologies, establishing itself in the mid- to high-end markets, and building online and offline new retail channels, and Redmi brand is positioned to pursue the ultimate price-performance ratio and focuses on online channels.

Below is a selected list of our recent smartphone models:

Xiaomi Brand

Mi MIX Series

Mi MIX Alpha (RMB19,999)

In September 2019, we released our concept smartphone, Mi MIX Alpha, a futuristic 5G smartphone featuring the world's first surround display and a screen-to-body ratio of 180.6%, demonstrating the Company's continued efforts in exploring cutting-edge technology. Mi MIX Alpha features a state-of-the-art 7.92-inch, 2,088 × 2,250 Super AMOLED display that wraps around the edges and nearly spans the entire width of both sides of the phone, rendering a seamless and multi-functional user experience. It also features Qualcomm Snapdragon™ 855+ processor, LPDDR4X and a triple camera setup capable of recording 8K videos.

Mi MIX FOLD (RMB9,999 and above)

In March 2021, we unveiled our ultra-premium flagship product Mi MIX FOLD, which comes equipped with a 2K+ foldable display, which offers a remarkable large-screen interactive experience in imaging, reading, video, gaming, etc. It is equipped with Xiaomi's first self-developed Surge C1 Image Signal Processor optimized for professional photography. It is also the world's first smartphone to feature a liquid lens.

Mi Number Series

Mi 11 (RMB3,999 and above) / Mi 11 Lite (RMB2,299 and above) / Mi 11 Pro (RMB4,999 and above) / Mi 11 Ultra (RMB5,999, and above)

In December 2020, we unveiled Mi 11 in mainland China, the world's first smartphone to feature the Snapdragon 888 chipset. With prices starting from RMB3,999, Mi 11's debut achieved widespread popularity as shipments surpassed 1 million units in the first 21 days following its release.

In March 2021, we unveiled Mi 11 Lite, Mi 11 Pro and Mi 11 Ultra. Mi 11 Ultra, with prices starting from RMB5,999, debuted the 50MP GN2 sensor. It comes equipped with the 120x digital zoom periscope lens, and an ultra-wide angle camera capable of capturing a stunningly wide 128° field of view. With these features, the Mi 11 Ultra achieved a DXOMARK score of 143 for overall camera performance, ranking first globally at the time of launch. Additionally, with diversified designs and functions, Mi 11 Pro and Mi 11 Lite cater to a wide range of demands from various customers.

Redmi Brand

Redmi K Series

Redmi K40 (RMB1,999 and above) / Redmi K40 Pro (RMB2,799 and above) / Redmi K40 Pro+ (RMB3,699 and above) / Redmi K40 Gaming Edition (RMB1,999 and above)

In the first quarter of 2021, we offered new positioning and expanded product choices of our Redmi brand. In February 2021, we unveiled Redmi K40, Redmi K40 Pro and Redmi K40 Pro+, which were well received by the market. Redmi K40 Pro and Redmi K40 Pro+ are both equipped with the Snapdragon 888 chipset. These smartphones offer compelling price-to-performance ratio at prices starting from RMB1,999. In April 2021, we unveiled Redmi K40 Gaming Edition with prices starting from RMB1,999. Equipped with the MediaTek Dimensity 1200 processor, Redmi K40 Gaming Edition offers superb gaming performance to the dedicated gamers, featuring unparalleled heat dissipation, fast charging capabilities, physical pop-up gaming triggers and an ultra-thin body design.

Redmi Note Series

Redmi Note 10 5G (RMB1,099 and above) and Redmi Note 10 Pro (RMB1,699 and above)

In March 2021, we released Redmi Note 10 5G and Redmi Note 10 Pro. The Redmi Note 10 5G ushers the Redmi Notes Series into the 5G era, and creates a more immersive and smoother 5G experience for our users through its advanced 5G+5G Dual Sim Dual Standby technology. The Redmi Note 10 Pro allows the users to take ultra-clear photos with its quad-camera on the back, featuring dual native ISO with higher dynamic range, richer details and professional noise control.

Redmi X Series

Redmi 10X 4G (RMB999 and above)/ Redmi 10X 5G (RMB1,599 and above)/ Redmi 10X Pro 5G (RMB2,299 and above)

In May 2020, we launched the Redmi 10X Series in mainland China. Redmi 10X 4G carries 5,020mAh battery and 18W fast charging technology. Redmi 10X 5G and Redmi 10X Pro 5G are equipped with the MediaTek Dimensity 820 SoC and supports dual 5G standby, while also featuring a Samsung AMOLED display and 30x digital zoom camera.

Redmi Number Series

Redmi 9 (RMB799 and above)/ Redmi 9A (RMB499 and above)

In June 2020, we released the highly cost-effective entry-level Redmi 9A series. Redmi 9A has a 5,000mAh long-life battery and a 6.53-inch large screen. In July 2020, we released the Redmi 9, equipped with a large 5,020mAh battery and a Helio G80 high performance processor.

Smart TVs

In the first quarter of 2021, global shipments of our smart TVs reached 2.6 million units. According to AVC, in the first quarter of 2021, our TV shipments ranked No. 1 in mainland China for the ninth consecutive quarter with a market share of 20.0%, and remained top five globally.

As a leader in the smart TV industry, we focus on strengthening our market position in the premium and ultra-large screen categories while expanding our global footprint. In the premium market, we introduced a number of flagship products within the Mi TV Master Series since July 2020, including the world's first mass-produced transparent TV Mi TV LUX Transparent Edition, and Mi TV LUX 82" Pro, both with prices starting from RMB49,999. We introduced Redmi MAX 86" super-size TV in February 2021, with prices starting from RMB7,999. In June 2021, we unveiled the Mi TV 6 Extreme Edition, which supports a 3D LUT film industrial grade color correction technology and houses an enhanced version of the MediaTek MT9950 chipset. The display has a 120Hz high refresh rate and even offers 120Hz MEMC as well. Mi TV 6 Extreme Edition also features our first 100 watt audio system.

In the first quarter of 2021, according to AVC, Xiaomi and Redmi TVs ranked No. 1 by retail sales volume in the over 70-inch TV market in mainland China, with a market share of 29.0%, as retail sales volume increased over 160.0% year-over-year.

In overseas markets, following the successful launch of our smart TVs in India, Indonesia and Russia, we also introduced our smart TVs to France, Poland and other key markets in 2020 as we further captured the large overseas market opportunity.

Laptops

We design and develop our laptops with a focus on delivering lightweight, portable products equipped with comprehensive features to offer the best quality and price among peer products with similar specifications. In February 2021, we launched RedmiBook Pro 14 (RMB4,299 and above) and RedmiBook Pro 15 (RMB4,799 and above) with very thin bezels, equipped with 11th-generation Intel Core processors, featuring built-in AI assistant ("小愛同學") for the first time. In March 2021, we unveiled Mi Laptop Pro 14 (RMB5,299 and above) and Mi Laptop Pro 15 (RMB6,499 and above). Mi Laptop Pro 14 sports a 14-inch 2.5K resolution LCD panel but with up to 120Hz refresh rate. In the meantime, Mi Laptop Pro 15 features a wide color gamut OLED display with 1.07 billion colors to deliver an extraordinary visual experience to our users.

AI Speakers

Our AI speakers currently include a variety of models priced from RMB49 to RMB599. Users can connect our voice-controlled AI speakers with other smart hardware products via Wi-Fi and program customized voice commands. In March 2020, we launched our Redmi XiaoAI Touch Screen Speaker, which features an 8-inch HD full-fit screen to reduce reflection and a wide visual angle. Redmi XiaoAI Touch Screen Speaker aggregates the content of a variety of popular online video platforms to provide an interactive and seamless entertainment experience to its users. In 2020, global shipments of our AI speakers exceeded 10 million units. According to AVC, in the fourth quarter of 2020, our AI speaker ranked No. 2 in terms of retail sales volume in mainland China with a market share of 29.4%.

Smart Routers

Our smart routers offer superior-price performance ratio among major comparable products. In March 2021, we introduced Mi Router AX9000 priced at RMB999. Its top speed is 9,000 Mbps based on three frequency bands and has excellent signal coverage to provide a richer user experience. In 2020, according to AVC, our routers ranked No. 2 in terms of online retail sales volume in mainland China, with a market share of 20.6%.

Smart Watches

We offer a series of smart watch models priced from RMB299 to RMB999. We provide an interactive user experience with the MIUI for Watch system, offering a variety of dial plate selections and the most used apps for downloading. Our AI voice assistant allows users to easily use voice commands for music playback, phone calls and navigation.

In November 2020, we released the Redmi Watch (price starting from RMB299), which has a 1.4-inch high-definition large screen, supports multi-function NFC and 7-day long battery life.

Smart Air Conditioners

We offer various models of smart air conditioners with suggested retail prices ranging from RMB1,799 to RMB5,999. In March 2021, we unveiled Mi Smart AC with Ventilation, which takes clean fresh air from the outside to effectively lower indoor carbon-dioxide levels and brings a healthy and comfortable experience to our users, furthering the adoption of a new generation of smart air conditioners with ventilation.

Smart Refrigerators

We offer a variety of models of Mi Refrigerators priced from RMB1,099 to RMB3,299, including Mi 4-Door Side-by-Side Refrigerator 486L, Mi 2-Door Side-by-Side Refrigerator 483L, Mi 3-Door Refrigerator 210L, and Mi 2-Door Refrigerator 160L, providing a spectrum of appliance sizes, storage volumes and price ranges. A three-dimensional air circulation setting ensures an even temperature in the cabin and prevents cool air from blowing directly onto food so it remains fresh longer. Each refrigerator boasts a silent 39dB noise level, keeping sound at a minimal volume. Along with a smart control panel, Mi 4-Door Side-by-Side Refrigerator is also enabled with our AI voice assistant and Mi Home app. Through voice control over our AI voice assistant, users can effortlessly modify the temperature and cooling mode of the cabin to customize their favored food tastes.

Smart Washing Machines

We offer various models of Smart Washing Machine with suggested retail prices ranging from RMB799 to RMB3,299. In September 2020, we launched the Mijia Internet Direct Drive Washing and Drying Machine, featuring a quiet washing function with the lowest volume of 50dB. The Mijia Internet Direct Drive Washing and Drying Machine uses the industry-leading DD direct drive motor with higher energy efficiency, lower noise and vibration levels and is able to be more precisely controlled compared to the BLDC variable frequency motor. It also has unique features such as the silver ion antibacterial function that has a sterilization rate of 99.9%.

Products Produced in Collaboration with Our Ecosystem Partners

We work with our ecosystem partners to design and develop a rich portfolio of smart hardware products. We meet our users' daily needs with products integrated through our internet platform in order to provide them with a digital lifestyle. Regardless of whether the products are designed and produced in-house or in collaboration with our ecosystem partners, the products share the same philosophy and are distinguished by a unique combination of innovative technologies, high-quality, aesthetically pleasing designs, user-oriented features and price accessibility.

To facilitate the integration of hardware products with our Mi Home app and AIoT platforms, we provide our ecosystem partners with hardware and software modules that could be seamlessly integrated into their devices. Instead of requiring our partners to invest significant resources in developing sophisticated integration software, our ecosystem partners can leverage our prepackaged modules with such software and only need to develop their communication protocols. We have robust safety standards to protect our internet and AIoT platforms in respect of the integration of our modules with hardware products.

Our products produced in collaboration with our ecosystem partners are primarily divided into three categories, including mobile peripherals, smart devices and lifestyle products. In mainland China, we maintained our top 2 positions in market share across a wide array of smart home product categories. According to IDC, we ranked No. 1 in air purifiers with market share of 52.5%, No. 1 in smart door locks with market share of 24.8%, No. 1 in smart temperature controllers with 90.6% market share, No. 1 in smart sensors with market share of 53.8%, and No. 2 in robot vacuum cleaners with market share of 23.1% all by shipment volume. According to Canalys, our smart fitness bands ranked No. 1 in terms of global wearable wristband shipments in the fourth quarter of 2020 with a market share of 37.3%.

Selected Mobile Peripheral Products

Headphones

We offer three types of headphones, namely wired, Bluetooth and true wireless stereo headphones, priced from RMB29 to RMB999. Our headphones are equipped with various features to cater to different needs and scenarios, such as making phone calls, sound quality optimization, noise reduction, portability and sports. All these headphones offer superior sound quality, aesthetically pleasing design and comfortable wearing experience. In May 2021, we released Xiaomi FlipBuds Pro, which features 40dB active noise cancelation and hybrid digital noise reduction, introducing more quality options to the active noise reduction TWS earphones market.

According to Canalys, our TWS earphones ranked No. 2 in terms of global shipments with a market share of 8.4% in the fourth quarter of 2020.

Fitness Bands

In March 2021, we introduced our new generation smart wristband Mi Smart Band 6, with a full screen display while further optimizing our health and fitness algorithm. According to Canalys, our smart fitness bands ranked No. 1 in terms of global wearable wristband shipments in the fourth quarter of 2020 with a market share of 37.3%.

Selected Smart Hardware Products

Air Purifiers

We ranked first in terms of air purifier shipments in mainland China in the fourth quarter of 2020 with market share of 52.5%, according to "IDC PRC Quarterly Smart Home Device Tracker, 2020Q4." In August 2020, we launched the Mijia Fresh Air Blower C1 80, a portable wall-mounted fan which doubles as an air purifier. It has an ultra-thin body and occupies only 0.16 square meters of wall area. The air blower can filter the air of an area up to 28.6 square meters and can remove common allergens, second-hand smoke, sand, dust and other pollutants from the air, creating a clean living environment.

Robot Vacuum Cleaners

We ranked second in terms of robot vacuum cleaners shipments in mainland China with market share of 23.1% in the fourth quarter of 2020, according to "IDC PRC Quarterly Smart Home Device Tracker, 2020Q4". Our latest model, Mi Robot Vacuum-Mop Pro, which we launched in March 2021, is equipped with Laser Distance Sensor (LDS) navigation, which enable it to scan its surroundings 360 degrees and to calculate a precise and thorough cleaning path. Mi Robot Vacuum-Mop Pro's strong two types of dustbins, suction power of 4000 Pa cleans the toughest stains in a smart and efficient way. In addition, Mi Robot Vacuum-Mop Pro maintains a low noise level while cleaning. Integrated with the Mi Home app, it allows users to control Mi Robot Vacuum Cleaners remotely and set regular cleaning schedules.

Scooters/Self-balancing Scooters

We ranked first in terms of electric scooters shipment globally in 2020, according to iResearch. We currently offer two models of electric scooter in mainland China, Mi Electric Scooter and Mi Electric Scooter Pro priced at RMB1,999 and RMB2,799, respectively. Both models have an award-winning design and are easy to master. The Mi Electric Scooter Pro has a travel range of 45 kilometers on a single charge and weighs 14.2 kilograms, and comes with features such as an LED headlight and an energy recycling function. Users can control both models via our Mi Home app.

In August 2020, we teamed up with Lamborghini to launch the Ninebot GoKart Pro Lamborghini Edition. The car incorporates classic Lamborghini colors and stylistic elements, is equipped with top of the range hardware configuration, speakers which can mimic up to 4 different types of engines, with a maximum speed of 40 kilometers per hour. It can also be transformed into a self-balancing scooter, allowing the user more choices.

Water Purifiers

We offer ten models of Mi Water Purifier priced from RMB999 to RMB3,999, which are well-designed water purifiers featuring reverse osmosis (RO) technology, which applies pressure through a RO membrane to separate purified water from tap water. For example, Mi Water Purifier H800G employs a multi-step filtration process before ultimately producing clean purified water. Equipped with 800G double outlet faucet and an optimized water purification path that improves filtration efficiency, Mi Water Purifier H800G is able to empower higher rate of water flow. Mi Water Purifier H800G can be monitored via the Mi Home app, allowing users to check real-time filter effectiveness and be reminded to change filters. Users can purchase new filters simply by placing orders via the Mi Home app. All in all, our Mi Water Purifier models are designed to allow users to change filters intuitively and easily.

Home Security Cameras

Our current models of home security cameras include Mi Camera 2 Magnetic Mount 2K, Mi 360° Home Security Camera 2K, Mi 360° Home Security Camera 2K Pro, Mi Wireless Outdoor Security Camera and Mi 360° Home Security Camera AI version. These home security cameras offer 1080P or 2K high resolution and internet connectivity for long-distance, real-time monitoring through the Mi Home app. According to IDC, Xiaomi's home security cameras ranked No. 2 in terms of shipments in mainland China in the fourth quarter of 2020 with a market share of 23.9%.

Smart Door Locks

We ranked No. 1 in terms of smart door lock shipments in the fourth quarter of 2020 in China with market share of 24.8%, according to IDC. We offer various types of smart door locks with retail prices ranging from RMB999 to RMB1,799. The latest model is Mi Automatic Smart Door Lock priced at RMB1,799. Mi Automatic Smart Door Lock supports 7 unlocking methods (Fingerprint, Password, Temporary Code, Bluetooth, Emergency Key, NFC Card and Homekit) and users full-automatic lock body and 6 types of security monitoring for more convenient use. Besides, Mi Automatic Smart Door Lock enables Bluetooth to be paired with other smart devices to create a seamless smart living experience.

Lifestyle Products

We offer high-quality and well-designed lifestyle products, including housewares and personal accessories, from our ecosystem partners through our new retail platform. These lifestyle product offerings reinforce our brand image and bring additional traffic to our platform. We carefully source and select the lifestyle products by upholding the same standards that we apply to our brand series products. These selected lifestyle products are meticulously designed and crafted with attention to detail.

IoT Developer Platform

Our IoT developer platform is open to not only our ecosystem partners but also to other developers who desire to connect their devices with other devices connected to our platform and ultimately reach more users through us. A developer can submit its application for connecting a device to our platform through our IoT developer online platform at any stage of the device's life cycle. Once a developer's device has completed our quality and compatibility test, the developer is able to enjoy our fully managed and integrated support and services as well as a wide range of basic and advanced developing capabilities, such as hardware connection, IoT modules, cloud platform and storage, app remote control, voice control and content sharing.

Value Propositions to Ecosystem Partners

Minority capital investment. We invest in the success of our ecosystem partners by providing early stage capital support and obtain minority equity interests in these partners.

Incubation support. We provide incubation support, including human resources and other administrative support and assistance to our ecosystem partners in their early stages of development.

Product design and development support. We bring our renowned industrial design prowess and technological expertise to the development of ecosystem hardware products and require our partners to follow our strict design and quality protocols and standards for products associated with our brands.

Supply chain management support. Through our know-how and our relationships with raw materials and component suppliers, we assist our partners in securing quality materials on preferential terms. Furthermore, we share our expertise in operational efficiency with our partners to help them manage their production-related costs.

Brand, marketing and retail support. Through our brand recognition and efficient new retail platform, we consistently offer highly popular IoT and lifestyle products to our users at accessible price points, thereby raising the profile, industry standing and sales volume of our ecosystem partners.

New Retail

Through our new retail strategy, we closely integrate online and offline sales channels to minimize layers of middlemen, achieve greater efficiency and provide the same products at the same accessible price points to our users.

Online

Leveraging our online expertise, we reach a wide group of customers across the entire e-commerce space in mainland China, in particular through our Mi Store and Youpin e-commerce platforms.

During the first few years of our operations, we exclusively sold our products through our self-owned online distribution channels. Capitalizing on the growing trend of e-commerce and its distribution efficiency, we expanded our online distribution channels through cooperation with leading third-party online e-commerce partners to capture more customers. As a result, we have established a strong online retail presence in our core markets. Our online approach provides significant advantages, including lower distribution costs. Over the past few quarters we further strengthened our market position in online channels. According to third-party data, our online smartphone market share in mainland China in terms of smartphone shipments jumped to 38.0% in the first quarter of 2021 from 18.5% in the first quarter of 2020.

Direct Online Retail

Currently our direct online retail channels include our Mi Store, our Youpin e-commerce platform and our flagship store on Tmall, all of which enable us to efficiently sell our products and services to our customers at accessible price points.

Mi Store

Mi Store, available in mobile app and Mi.com, offers the full line-up of our products directly to our users. In mainland China and many overseas markets, users can purchase our products directly from local Mi Store apps and websites. For other overseas markets, Mi Store serves as the centralized platform for users to learn about our products and services. Mi Store creates a curated shopping experience for our users through personalized product recommendations and insightful product descriptions.

Our Mi Store mobile app allows customers to quickly and efficiently discover, review, select and purchase our products. We strive to provide customers with a customized shopping experience through analyzing and understanding their transaction histories and browsing patterns on our mobile apps in order to increase customer stickiness and enhance cross-selling opportunities. We continuously develop additional features to enhance user experience.

Youpin

Youpin is an e-commerce marketplace that we created not only to sell our Mi-branded products but also to sell high-quality products that are not associated with Xiaomi but curated and sourced by us. Youpin's e-commerce platform complements our existing business model by offering a wider set of popular high-quality products. Youpin, which includes the Youpin mobile app and the xiaomiyoupin.com website, stands for good taste and premium quality, which is also the Chinese meaning of the name.

We distinguish ourselves from other e-commerce players through our careful selection of a limited set of SKUs within each category, focusing on products that can become "killer products." The platform currently offers a variety of categories, including home, transportation, electronics, entertainment, apparel, sporting goods and personal care. We have strict requirements and high standards for all merchandise listed on Youpin. We offer our customers an experience of unique brand identity, premium quality and high value, as well as a simple sleek look that shares a similar design philosophy to our own brand series products. Youpin product placement is acknowledged as a validation of quality and style. As a result, our merchants know that placing products on Youpin will improve brand recognition and likely increase sales.

Third-party Online Distribution Partners

We sell our products through a global online distribution network consisting of third-party e-commerce partners. In mainland China, we cooperate with major e-commerce players that directly purchase our products and subsequently distribute the products to end users. In overseas markets, the third-party e-commerce marketplaces on which our products are sold include Flipkart, Shopee and Amazon. We believe that the online distribution of our products through these leading e-commerce players enables us to take advantage of their established customer base and brand recognition and helps us reach a wide group of customers in a variety of global markets.

Offline

For offline, we primarily sell our products through our own retail stores, Mi Homes, directly to our users and through a third-party distribution network consisting of (i) cellular network carriers in mainland China, (ii) retail chains and local authorized stores in mainland China, and (iii) overseas distributors, including wholesale distributors, cellular network carriers, and authorized stores. As a key part of our offline retail strategy, we endeavor to work with no more than one distribution intermediary to ensure distribution efficiency, competitive retail pricing and great user experience.

We have been strategically expanding our offline retail presence in mainland China by increasing the number of retail stores while strongly emphasizing operating efficiency. We are determined to expand our footprint to every county across mainland China, making Mi Homes accessible to every Mi Fan. As of April 30, 2021, the number of our offline retail stores surpassed 5,500.

To ensure high operating efficiency, we built a digitized new retail system. By using our proprietary retail management app, we and our business partners can consolidate and analyze real-time data including user traffic, in-store sales, and inventory to support intelligent business decision-making. Our big-data capabilities will bolster the core competency of our offline retail operations, optimizing overall operating efficiency and improving return on investment for each store. According to third party data, our offline smartphone market share in mainland China reached 7.0% in the first quarter of 2021, increased from 5.3% in the same period of the previous year. Our offline smartphone market share in mainland China was 5.3%, 5.6% and 4.7% in the second, third and fourth quarter of 2020, respectively.

Self-operated Mi Homes

As an integral part of our new retail strategy and to ensure a consistent satisfactory shopping experience for our products, we have built a large network of offline retail stores called Mi Homes. In mainland China, our Mi Homes footprint covers substantially all provinces and municipalities. We typically operate our Mi Homes stores directly in large cities in mainland China.

Our Mi Homes are typically located at high-traffic locations in quality shopping malls and urban shopping districts. The stores are designed to enhance the presentation and marketing of our products and services. Our in-store personnel are well-trained and knowledgeable on our products. Also, we believe that direct interaction with our targeted customers is an effective way to demonstrate the advantages of our products. To enhance customer experience and our operational efficiency, we do not incentivize or encourage our in-store personnel to promote our products or services to potential customers in an unsolicited manner.

Third-Party Offline Distribution Network

We distribute our products through cellular network carriers in mainland China, including China Mobile, China Unicom and China Telecom. In a number of European countries and other overseas markets, we have also partnered with local cellular network carriers to distribute our products. As of March 31, 2021, we had established cooperation with over 150 carrier channels (including carrier subsidiaries) worldwide.

In addition, we collaborate with consumer electronics retail chains and local authorized stores to distribute our products. Our retail chain partners include leading national brands and regional players, and we typically enter into a non-exclusive framework agreement with each retailer and sell our products to retailers on a per-order basis.

We do not commit to repurchase our products from the retailers or local authorized store owners. We recommend a minimum price on the resale of our products. Our retailers and local authorized store partners are our customers rather than agents, because once we have sold and delivered our products to them, they bear the risks of damage and obsolescence and they may not return the products unless they are defective according to the relevant applicable laws.

For selected international markets, our wholesale distribution partners distribute our products to other sub-distributors and retailers only within certain designated territories, and those sub-distributors and retailers will subsequently sell our products to end users. Our wholesale distributors are typically specialized in the distribution of smart hardware and operate well-established local distribution networks.

Internet Services

Given our vast, diverse and highly engaged user base, we are well positioned to broaden our services. Since our inception, we have focused on improving the integration of our products and internet services and the connectivity between our devices in order to provide a better user experience. As a result, we have achieved a high level of user engagement and retention. In addition to MIUI, we also provide internet services to users on other operating systems. These services include Mi Store, Youpin, Mi Home and Mi Fit. By offering these internet services, we expand our user base and enrich our entire ecosystem.

MIUI

MIUI is our proprietary operating system built on the Android kernel, which fully embraces and is compatible with the Android ecosystem. All Android apps are compatible with MIUI.

We developed the first version of MIUI based on the Android operating system in 2010 with significant customization and localization to adapt to consumers' user habits. Since then, MIUI has achieved high popularity among users attributable to its intuitive, fast and stable features. We made beta versions available to users every week to gather feedback and recommendations ahead of stable version updates, based on which we analyze and improve the system and have developed numerous features and optimizations to enhance its basic framework, usability and user experience. As a result, MIUI has attracted a massive user base with active user engagement.

MIUI supports a comprehensive suite of functionalities for our smartphones and provides a wide array of customized services to our users and developers to address their needs. For example, Mi Push is a stable, reliable and efficient notification service that provides a system-level message notification solution for users and developers not only on MIUI but also on other Android- and iOS-based platforms.

MIUI pre-installed on our smartphones shipped internationally may vary from our domestic versions, with system framework, design and customization catered to the local markets.

Mi Cloud

Mi Cloud is our cloud storage and cloud computing service that provides users with a one-stop solution to address the needs of personal data storage and backup. Seamlessly integrated with our products such as our smartphones, Mi Cloud offers a comprehensive and convenient storage service for user data, including data in a user's contacts, messages, photos, videos and documents. Mi Cloud synchronizes each individual user's data on different devices and keeps the data updated across all devices through a unified online account. Any changes to the stored data are automatically synchronized regardless of the device on which the change is made, making data migration easier. Mi Cloud backs up scalable user data automatically when a device is connected to Wi-Fi, and it possesses a broad set of features that enable multiple devices to operate faster, more securely, and save substantial costs.

Mi App Store

Mi App Store is our distribution platform for Android-based mobile apps. Mi App Store allows users to browse, search and obtain various mobile applications for mobile devices, and through these applications access the mobile internet on a secure and user-friendly platform. Through various apps, users can conveniently obtain internet content such as video, music, games and e-books. We leverage our proprietary development skills and technologies and have established strong relationships with app developers and content providers to provide a large quantity of mobile apps and other content on our Mi App Store.

Mi Browser

Our Mi Browser provides our users with a fast and secure browsing experience. Mi Browser can automatically block malicious websites, identify them among search results and scan files downloaded through the browser for security threats. Mi Browser also offers a "private browsing" option to allow users to surf the internet without leaving historical access records. Mi Browser features user-friendly user interface and functions. For example, users can store their bookmarks on our Mi Cloud and access the bookmarks whenever they want and wherever they are through a mobile device. Also, Mi Browser offers password managers to help users easily access multiple personal accounts on different online services through a secure cloud-based system.

Mi News Feed

Mi News Feed is a comprehensive content distribution platform, providing our smartphone users with high-quality, timely and customized streams of news articles and short videos. Mi News Feed operates through easily accessible portals including the mobile web browser and content center installed on our smartphones. In cooperation with leading providers of content providers to ensure high-quality user experience, Mi News Feed provides tailored content delivery services based on AI-powered analytics of our users' content consumption habits.

Mi Security

Mi Security is an internet security application that we offer our users for free. It incorporates anti-virus, anti-malware, anti-phishing, malicious website blocking and secure online shopping functions in a single lightweight installation package and leverages the power of our cloud-based data analytics engines to protect our users against security threats and malicious applications. The app can perform periodic or on-demand scan of program files on our users' devices and test them against our cloud-based security threats database.

Mi Game Center

We seek to cooperate with leading game producers as well as individual developers to provide our users with the broadest selection of games. Users can find the latest action blockbusters as well as popular leisure games. We customize the display of the homepage and ranking of the games based a variety of factors, including each user's individual taste and preference by leveraging our big data analytics capabilities.

Therefore, users get a curated selection of games and individualized gaming experience. In addition, we offer live streaming services designed for gamers to create, share and discover a broad range of mobile game-related content. Users can interact with live streaming hosts by commenting on the content or by sending virtual gifts.

Mi Video

Mi Video is our main video content distribution platform on smartphones, with content sourced from third parties. We have been expanding and diversifying our content library to make premium content available to our users, achieved through partnership with major content providers. Mi Video is a one-stop portal for users to access both trending and recommended content. Leveraging our big data analytics, we analyze user browsing behavior to understand their tastes and preference, and dynamically update the content shown on the home page to offer users with the most desirable content. Our interface offers comprehensive viewing functions designed to enhance user experience. Our membership services generally provide paid subscribing members with a superior entertainment experience that is embodied in various membership privileges.

Mi Music

Our music distribution platform features large selections from popular artists and albums sourced from third parties. Our users have access to a vast array of music from both popular Chinese and international artists. Our music library spans across all major music genres such as pop, R&B, classical and traditional Chinese. We also offer podcasts and talk shows that users can subscribe to. Mi Music caters to diverse listening needs through improved search functions and AI-enabled personalized recommendations. We suggest playlists based on a variety of factors, including users' previous music selections and listening habits, time of the year or holidays and location.

Our finance related business

We commenced our internet finance business in 2015. Since then, we have developed innovative financial products and internet payment platforms to meet our users' diverse financial needs. Our loan products include installment purchase loans, which allow users to finance purchases of our hardware, and consumer loans, which allow users to satisfy their other financial needs. We distributed our loan products mainly through our Airstar Finance, Airstar Wallet and Airstar Loans mobile apps. In addition to our loan products, Airstar Wallet has mobile wallet and payment functions such as money transfer and bill payment functions. In addition, we provide supply chain financing services to our ecosystem partners as well as our upstream partners. On October 18, 2020, we rebranded our fintech business as "Airstar Digital Technology". It focuses on three main areas: Supply Chain Finance, Retail Finance, and Financial Technology. Drawing on our technological capabilities in big data and AI, Airstar Digital Technology will provide financial services to an increasing base of retail and corporate consumers, and empower digital transformation of financial institutions.

Monetization

Currently we monetize our internet services primarily in mainland China and focus on advertising and internet value-added services. We have been building internet service monetization capabilities in overseas markets. Our monetization approach is to emphasize long-term sustainable monetization capabilities without compromising our exceptional user experience.

Our hardware creates a platform for users to engage with our internet services, which in turn we monetize through advertising and a wide range of internet value-added services. We use our proprietary technologies and big data analytical capabilities to offer comprehensive and innovative services to our business partners and users.

Advertising

Our advertising distribution channels primarily include our mobile apps and smart TVs. We offer diverse types of advertising formats to our advertising customers, such as display and performance-based advertising, to suit their particular business needs and marketing goals. Utilizing our robust big data analytics and AI capabilities, we customize the look, feel and timing of the display of the marketing messages to allow their seamless integration into content without compromising user experience. Our advertising customers cover diverse industries, ranging from auto and consumer goods to internet services and financial services, and they place advertisements directly with us or by engaging advertising agencies and resellers that in turn enter into contracts with us. We generate advertising revenue from this marketing distribution channel primarily by offering display-based and performance-based advertisement services. For display-based advertising services, we typically charge advertising customers based on the length of time during which the advertisements are displayed on our internet platform. For performance-based advertising services, we typically charge advertising customers on a per-click basis when the users click on the content, on a per-impression basis when the advertising content is displayed to users, or on a per-download basis, when the third-party app is downloaded by users. Our other advertising services primarily include pre-installation of mobile apps from third-party app developers on our smartphones.

Our automated marketing functionalities for advertisers empower performance-based marketing throughout our mobile apps. We offer a suite of analytical tools to help our advertising customers to evaluate the performance of their ads and improve key metrics such as click-through rate. We allow e-commerce advertising customers to integrate their catalog into our platform, leading to more precise targeting and pushing of their products. Our big data technologies enable a real-time and dynamic bidding process by analyzing bidding price and click-through rates of the advertisements, which facilitate market making and improve monetization. Through the use of aggregated behavioral targeting data and analytics, we continually improve the effectiveness of our online marketing services for our advertising customers. Our overseas advertising business has also been rapidly developing, as we expanded our advertiser base and attracted increasing advertising budgets, with support of our strong smartphone shipments abroad.

Gaming

A sizable portion of our internet value-added service revenues was derived from online games. We offer streamlined digital sales, distribution and operational support services to third-party game developers. We offer a broad range of operational support to our third-party game developers, in a joint effort to enhance user engagement and increase monetization. For example, we closely monitor and analyze the key performance metrics of a game, including daily active users, average daily time online, paying user conversion rate and retention rate. Based on these metrics and leveraging our big data capabilities, our games operation team actively identifies areas for improvement and offers diagnostic advice to game developers. We also design promotional activities to help game developers gain more exposure and improve performance. We seek to maintain close and mutually beneficial relationships with key game publishers. Most of the games on our platform are free-to-play. We primarily generate revenue from sales of virtual currency that can be spent on the purchase of virtual items for use in the games we operate, which is subject to revenue-sharing arrangements with third-party game developers.

Other Value-added Services

We have developed other diverse forms of monetization for our internet value-added services, which primarily include our fintech business, paid subscription by users of premium entertainment content (such as online videos) and Youpin e-commerce platform. On October 18, 2020, we rebranded our fintech business as "Airstar Digital Technology". Our TV internet services also has maintained strong traction, driven by the solid performance of our subscription business. The Youpin e-commerce business has also grown robustly, as we have enlarged our merchandise portfolio, insisted on selecting high-quality goods that appeal to our customers and increased our efforts in new customer acquisition.

Global Operations

In 2020 and the first quarter of 2021, we have kept up our strong momentum in major markets around the world. In 2020, our revenue from overseas markets increased 34.1% year-over-year to RMB122.4 billion (US$18.7 billion), accounting for 49.8% of our total revenue. As of March 31, 2021, our products were sold in more than 100 countries and regions around the world. In the first quarter of 2021, our revenue from overseas markets increased 50.6% year-over-year to RMB37.4 billion (US$5.7 billion), accounting for 48.7% of our total revenue. According to Canalys, in terms of smartphones shipments in the first quarter of 2021, we ranked No. 1 in 12 countries and regions and among top five in 62 countries and regions globally.

We further improved our competitive positioning in key markets. According to Canalys, in the first quarter of 2021, we ranked in the top 2 for the first time in Europe with an 85.1% year-over-year increase in smartphone shipments and a market share of 22.7%. Notably, we ranked No. 1 in Eastern Europe for the second consecutive quarter and retained the top 3 position in Western Europe. In addition, our position in Latin America rose to No. 3 as our smartphone shipments increased 161.7% year-over-year to reach a 11.5% market share. We ranked No. 3 in the Middle East as our smartphone shipments increased 87.8% year-over-year. We also attained the No. 4 spot in Africa as our smartphone shipments increased 191.0% year-over-year, according to Canalys.

In 2020 and the first quarter of 2021, we continued to strengthen our channel capabilities in overseas markets. In 2020, we sold more than 16.0 million smartphones via online channels in overseas markets excluding India, an increase of over 90.0% year-over-year. In addition, we shipped more than 9 million smartphones through carrier channels in overseas markets excluding India, an increase of over 380.0% year-over-year. As of March 31, 2021, we had established cooperation with over 150 carrier channels (including carrier subsidiaries) worldwide.

As overseas markets are a strong growth driver for us, we will continue to invest heavily in them, expand our sales channels through strengthening our cooperation with local partners, and provide our competitive products and services to more countries and regions. For risks relating to our overseas operations, see "Risk Factors – Risks Relating to Our Business and Industry – Our business is subject to the risks of overseas operations."

Customer Service

Providing great customer service is a high priority for us. Our commitment to users is reflected in the high levels of service provided by our customer service staff as well as in our product return and exchange policies. We operate customer service centers around the world, handling user queries and complaints regarding our products and services. Users can make queries on our products and ordering process and file complaints around the clock by various means, such as online chatting, a customer service hotline, and online written instant messages through Xiaomi official accounts in WeChat and Weibo, and emails.

Marketing and User Engagement

Branding and Endorsements

Since our inception we have emphasized the value of customer feedback and direct communication with our users. We do not have very large selling and marketing expenses for a company of our size. Instead, we rely on word-of-mouth marketing through continual offering of killer products. We have fostered a large, active and loyal user base. In order to reach a wider customer base, we engage popular celebrities as brand ambassadors for our products and sponsor popular variety shows.

Community and Engagement

We have a close-knit user community that shares our core values. They actively participate in our Mi Community, MIUI forum, various other social media platforms, our research and development initiatives and offline activities. We cultivate and support the growth of our user community through close interaction with our users, especially Mi Fans, and actively listening to their feedback. We have adopted a user-centric research and development approach. Mi Fans can directly provide our engineers and developers with valuable suggestions and insights, which enables us to capture user demand and market trends in a timely and precise fashion.

Mi Community and MIUI forum are our official online discussion forums where users can share thoughts and experience, discover new functionalities and make recommendations for improvements for our products and services. Our engineers regularly participate in our online discussion forums to respond to users' queries and understand users' evolving needs. We also maintain various official social media accounts to actively engage with the users by addressing their questions and concerns. Our news channel on Mi Community publishes the latest news and updates about our Company and products. Our users also engage with us through other social media platforms.

Our offline events are nicknamed "Mi Pop." These events range from Mi Fan meet-ups to sporting events to dinner parties with our management teams. Mi Fans often take the initiative in planning and organizing these events to promote Mi Fan pride. Our close-knit and vibrant Mi Fan community is highly visible. Such events generate significant buzz on social media. We greatly benefit from word-of-mouth marketing and referrals by our passionate Mi Fans.

Data Privacy and Protection

We are committed to protecting our users' personal information and privacy. We believe it is crucial that our users understand how we handle their information so that they can make informed choices in deciding how such information is used and shared. To this end, we collect personal information and data from users only with their prior consent, and we offer our users opt-out or opt-in options.

We have established a strict company-wide policy on data collection and processing and have implemented a network of process and software controls conforming to top privacy standards around the world. Our user data security and privacy policies can be found on the Xiaomi Trust Center website at trust.mi.com.

In April 2020, we introduced the Xiaomi Privacy Brand and embedded its key functions into our operating system MIUI. With a firm commitment to our privacy protection principles, which centers on openness and transparency, minimal data collection, purpose limitation, cybersecurity, censorship, and responsibilities, the features of Xiaomi Privacy Brand will continue to be applied to an array of our products and service offerings. In June 2021, we held the second annual Security and Privacy Awareness Month in our headquarters. Centered around the main theme of "Security is our shared responsibility. Always think before you act.", the goal was to show Xiaomi's determination to pursue industry-leading standards on security and privacy and to reinforce our commitment to transparency. During the month, we distributed white papers on security and privacy as well as a transparency report on data security practices.

Technology and IT Infrastructure

5G and Technology Development

We formed the Standards and Advanced Technology Department in 2015 to participate in the formulation of international, domestic and enterprise standards that are important to our businesses.

We are one of the few smartphone companies with 5G simulation capability in the industry. We actively participate in the formulation of 5G and 5G-related telecommunication standards, and have also participated in the research of 6G technology. We are a member of many important international standardization organizations including, but not limited to, GSMA, WPC, IEEE and 3GPP, with our experts holding leadership positions in many of these organizations. We have submitted a large number of research papers to these organizations to share our technological breakthroughs and industry insight.

Cloud Computing

Our sophisticated and strong cloud computing capability empowers us to provide differentiated services to our users and supports our continuous data analytic efforts. For individual users who grant consent to us, we leverage our cloud computing technology to store and analyze user data and provide tailored services to our users to enhance user experience. Through its capability to gather and analyze user data and user behaviors, our cloud computing technology serves as a universal analytics and processing engine that optimizes the functionality of our products in frequent and important user scenarios, thus enhancing the competitiveness of our products. For example, we design and develop customized optimization of our products for users in various countries and regions based on their different photo-shooting habits.

In addition, our cloud computing technology enables our ecosystem partners to conduct their business operations with security. Connecting to our enterprise cloud helps our partners achieve real-time storage and data backup and enables high-capacity and scalable data processing in an efficient, cost-effective and flexible manner. Our cloud computing also supports emerging applications so that IoT hardware can compute locally at the edge, while leveraging the cloud for global collaboration and machine learning at scale.

Big Data

Our data scientists specialize in data pre-processing, data modeling and data mining, as well as the creation of customized data analysis. Our big data processing and advanced algorithm capability enables us to analyze massive amount of data, based on which we design and tailor more innovative products and services to better serve and create value for our users. With prior user consent, we collect various types of data, such as logs, user behaviors and patterns, from products and services across our platform. All data is pooled into one platform for ease of analysis and is further categorized into multiple layers, each requiring different level of access authority. Our different operational departments can access the data on an as-needed and real-time basis with user consent, and utilize the data to improve their respective function and performance.

Artificial Intelligence

Our AI technology team is responsible for developing and refining our proprietary computational algorithms and machine learning capabilities, and applying the latest AI technology in our products and services. Our engineers incorporate open source software with our robust proprietary technology to form an enterprise-grade platform to deliver an integrated suite of capabilities for data management, machine learning and advanced analytics. We have successfully applied our advanced AI capabilities in various aspects of our business to improve both user experience and monetization opportunities.

Computer Vision

Our computer vision technology uses advanced algorithms and precisely detects, identifies and recognizes objects, scenes, images and faces, providing users with functionalities such as face detection and photo classification. Our facial recognition technology, the core of our computer vision technology, forms a positive feedback loop with our users' activities such that an increasing amount of user data further improves the precision and efficiency of our algorithm. The entire process is based solely on collected user behavioral statistics and does not involve users' data privacy.

Our face detection technology accurately and rapidly detects the location and the number of faces in photos. Our facial point detection technology can quickly and precisely locate key facial features and compositions. We have also developed advanced capabilities in facial boundary detection, face color optimization, portrait segmentation and white-balance optimization. These technologies enable our smartphones to take portrait photos with bokeh effects even with one single camera. Our visual recognition app is capable of recognizing and identifying different real-life objects, such as flowers, plants, vehicles, foods, celebrities, animals, arts and posters, and facilitating our users to acquire relevant information or image or to browse similar commercial products related to the objects identified. Our image understanding algorithm applies deep learning to classify and segment image content, thereby providing users with a variety of powerful tools, such as sky replacement, portrait retention, etc.

Speech Recognition and Natural Language Processing

We develop our leading speech recognition and natural language processing (NLP) technologies under our proprietary testing standards and certification system. Our speech recognition capabilities feature highly accurate and speedy recognition and translation of spoken language into text, which builds the bedrock for further processing and analysis. Our machine translation system is trained on massive parallel text corpora and achieves high accuracy for languages pairs. With sophisticated algorithms applied to a variety of daily user scenarios, we continuously improve and expand the application of voice control, both by our own team and third-party developers.

Our AI voice assistant is able to adapt to users' individual language usages, searches, and preferences and carry on conversations intelligently with users and respond to a range of customized queries. As a virtual assistant, it is able to recognize user voice and possesses contextual knowledge of user information to complete a variety of daily tasks assigned by users. Connected through our AI platform, our AI speaker can also interact with our apps and third-party apps to provide services such as navigating and ordering products from our Mi Store. Our cloud-based open platform enables third-party developers to code and program new voice-controlled software and skills for our voice-enabled AI speaker. Our AI voice assistant has been built into multiple devices including smartphones, smart speakers, smart TVs, smart watches, and smart alarm clocks. Our AI voice assistant is capable of performing a wide range of functions from turning on lights, adjusting temperature of the air conditioner, controlling vacuum cleaners, checking weather condition, and playing music, to telling children's stories. At the annual Mi Developer Conference (MIDC 2020) held in November 2020, we introduced our latest "XiaoAi AI Assistant 5.0", offering full-scenario intelligent collaboration, conversational active intelligence, customized voice with emotions, multi-modal visual capabilities, and smart learning assistance.

Search and Recommendation

Leveraging our AI technology, we have developed a high-quality search and personalized recommendation system for our internet services, allowing users to access what they need anytime, anywhere, including information, applications, games, music, videos and merchandise. Through machine learning techniques, our system is able to better understand content and extract semantic tags, which provide more relevant search results to our users. For example, when our user searches for certain content, our system first identifies the query intent based on the searched term, and then matches and returns the content that best meets the user's intention through search sorting algorithms. When the user does not have a clear search intention, our system predicts the content that the user may be most interested in based on user profile and previous search history. Currently our search and personalized recommendation system powers our various internet services.

IT Infrastructure

Our network infrastructure is designed to satisfy the requirements of our operations, to support the growth of our business and to ensure the stability of our operations as well as the security of information on our internet platform. We continuously develop our platform to offer users an effortless and seamless experience across all of our internet services, while at the same time enhancing the reliability and scalability of our internet platform.

Cloud Services

We use virtual machines, computing, storage, network and other infrastructure services in cooperation with a number of major public cloud service providers to ensure smooth business operations. Our system infrastructure is hosted in data centers in scattered regions with backup storage provided by databases of our cloud service providers. We have implemented multiple layers of redundancy to ensure network reliability and a working data redundancy model to conduct daily complete database backup. Our data storage services can be efficiently switched between multiple cloud providers across regions.

Information Security

We are committed to maintaining a secure platform and protecting our users' information security. We have established an information security management system in line with ISO27001 international information security standards, and manage the company's information security from various aspects including security organization, security policies, and technical control. We have also established company-wide privacy protection system in accordance with ISO29151 and ISO27018 international privacy standards, safeguarding data security for our users on various respects such as privacy policies, privacy assessments, and privacy protection technologies. We have established an information security and privacy committee responsible for formulating our security and privacy policies.

We have a dedicated security and privacy team to provide technical support for the security and privacy protection functions of our products and services. Our network and application systems use defense-in-depth security system, which features network isolation, network boundary access control, remote access multi-factor authorization, security protocol transmission for application programs and cloud server application. We have also implemented security baseline check, strict password enforcement policies, and regular review mechanism. Our multi-layer security technology automatically defends against malicious attacks every day and secures the security of our users' data in various scenarios. In terms of privacy protection, we use a privacy white paper for our products and services to maintain records of personal data processing and use an automated privacy compliance testing platform.

Research and Development

As the industry which we compete in is characterized by rapid technological advances, our ability to compete successfully depends on our ability to develop and introduce new products, services and technologies to the market. We are passionate about developing innovative technologies and continuous upgrading and improving the functionality and features of our technology infrastructure to enhance existing products and services and expanding the range of our offerings through in-house research and development, licensing of third-party intellectual property and acquisition of third-party businesses and technology.

In August 2020, we unveiled the Third Generation Under-screen Camera Technology. The smartphones equipped with this new camera technology have the front-facing camera under the screen, providing a perfect full-screen design and ensuring a superior selfie experience.

In November 2020, we introduced the Retractable Wide-aperture Lens Technology, which features a retractable optical structure allowing a larger aperture to increase the amount of light intake by 300%. This complements the new anti-shake technology that provides a more stable image display with a 20% increase in definition and clarity.

In January 2021, we unveiled our proprietary remote charging technology – Mi Air Charge. This groundbreaking charging technology accurately detects smartphone location, enabling users to remotely charge smartphones without any cables or wireless charging stands. This technology marks another revolutionary innovation in wireless charging led by Xiaomi.

In February 2021, we debuted our first quad-curved waterfall display concept smartphone which features an 88° hyper quad-curved screen that is extended to cover almost the entire frame of the smartphone. By Making the smartphone body free of ports or buttons, we have marked another revolutionary exploration into the next generation of smartphone display design.

In the first quarter of 2021, we debuted our first self-developed Image Signal Processor Surge C1 on the Mi MIX FOLD. Surge C1 enables more accurate auto focus, auto exposure and auto white balance, boasting another remarkable achievement in our imaging technology. It also features the first liquid lens in a smartphone, replacing the traditional optical lens with a transparent fluid wrapped in film, and allowing telephoto as well as shooting with micro details.

In May 2021, we released our 200W wired charging solutions which enables full charging of a 4,000mAh battery in 8 minutes. This cutting edge technology again spearheads the wireless charging solutions in the industry.

As of March 31, 2021, our research and development personnel, totaling 10,407 employees, were staffed across our various departments. Our research and development team comprises industrial design engineers, electrical engineers, mechanical engineers, computer scientists, software engineers and mobile app developers. We will continue to advance our investment and recruit more engineers to strengthen our R&D capabilities. We look to further broaden Xiaomi' s technological frontier across key areas, including camera imaging, screen display, fast charging/wireless charging, audio, IoT platform and connectivity, AI and voice interaction, 5G/6G, big data and cloud-based services, digitalization and workflow management system, and smart manufacturing.

Intellectual Property

Intellectual property rights are fundamental to our business, and we devote significant time and resources to their development and protection. We currently hold a broad collection of intellectual property rights relating to certain aspects of our in-house designed and ecosystem hardware products, software and internet services. Such rights include trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights in mainland China and a number of overseas jurisdictions. For ecosystem hardware products, we typically exclusively hold the intellectual property rights relating to the design of such products and hold joint ownership over the intellectual property rights relating to the technology arising from the joint research and development of such products with our ecosystem partners. With our prior written consent, our ecosystem partners are allowed to license jointly-owned intellectual property rights to a third party, and use such intellectual property rights to develop and manufacture products of their own brands with features that can be easily differentiated from ours. We have entered into worldwide intellectual property cross license agreements with a number of global technology leaders in the mobile telecommunications market. See "Risk Factors – Risks Relating to Our Business and Industry – We rely on access to third-party intellectual property, which may not be available to us on commercially reasonable terms, or at all."

Intellectual Property Protection

The protection of our trademarks, copyrights, domain names, trade names, trade secrets, patents and other proprietary rights is a strategic priority for the sustainable development and growth of our business. We regularly file patent and other proprietary rights applications to protect innovations arising from our research, development and design, and are currently pursuing thousands of intellectual property applications around the world. In particular, we have accumulated a large portfolio of issued patents, including utility patents, design patents and others, in mainland China and various countries and jurisdictions internationally.

We rely on a combination of patent, trademark, copyright and other intellectual property protection laws in mainland China and other jurisdictions, fair trade practice, as well as confidentiality procedures and contractual provisions to protect our intellectual property. In general, our employees must enter into a standard employment contract that includes a clause acknowledging that all inventions, trade secrets, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works. Despite our precautions, third parties may infringe our intellectual property rights. Unauthorized use of our intellectual property by third parties and the expenses that may incur in protecting our intellectual property rights from such unauthorized use may adversely affect our business and results of operations. See "Risk Factors – Risks Relating to Our Business and Industry – We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position."

Procurement, Assembly and Manufacturing

Procurement

We procure raw materials and components from top-tier suppliers for the production of our in-house products based upon a forecasted production plan and outsource the assembly of our in-house designed products to our outsourcing partners. We closely collaborate with our ecosystem partners to jointly design and develop hardware products, and our ecosystem partners supply finished products to us for sale and distribution to our customers.

Although most raw materials and components essential to our in-house products are generally available from multiple sources, a few components are currently sourced from a single or limited number of high-quality suppliers in the industry. Therefore, many raw materials and components used by us, including those that are available from multiple sources, may at times be subject to industry-wide shortage and significant pricing fluctuations. See "Risk Factors – Risks Relating to Our Business and Industry – Future operating results depend upon our ability to obtain raw materials, components and products in sufficient quantities on commercially reasonable terms."

We use certain custom components for our in-house designed products that are not commonly used by our competitors, and new products introduced by us often source custom components available from only a single or limited number of suppliers. When a component or product uses new technologies, initial capacity constraints may exist until a supplier's yields have matured or manufacturing capacity has increased. Continued availability of these raw materials and components at acceptable prices, or at all, may be affected if those suppliers decide to concentrate on the production of common components instead of components customized to meet our requirements.

Assembly

A substantial majority of our in-house products are currently assembled by our outsourcing partners in mainland China, and some of such products are assembled in India, Indonesia and Turkey in compliance with the relevant local regulations. Our outsourcing partners produce our products using design specifications and standards established by us. We possess the key patents and technologies in relation to our hardware production. Our partners specialize in the assembling of electronic devices, and we believe they are experienced and well-positioned to meet our volume, cost and strict quality requirements.

Our outsourcing partners assemble hardware devices using components and raw materials primarily sourced and procured by us. Our engineers and other quality assurance professionals monitor the assembling process and compliance with all of our protocols. We believe that outsourcing assembling affords us greater scalability and flexibility than establishing and maintaining our own assembling facilities. We periodically evaluate the necessity and benefit of working with additional outsourcing partners to support our operations.

Manufacturing

In August 2020, we introduced our smart factory in Beijing. Through our smart factory, Xiaomi has developed advanced manufacturing equipment, including automated high-end smartphone production lines, and successfully mass produced the Mi 10 Ultra Transparent Edition and MIX FOLD. Our smart factory serves to provide three key functions, namely (1) a smart factory with an annual production capacity of one million high-end smartphones; (2) a mega laboratory that engages in the research and development of new materials and cutting-edge technologies; and (3) an experimental base for the next-generation manufacturing equipment and automated production lines. The smart factory enables us to enhance control over the full production cycle across research and development, technology implementation, and manufacturing processes, fortifying our technological leadership.

Strategic Investments

Our success is based on our ability to create new and compelling products, services, and experiences for our users, to embrace disruptive technology trends, to enter new geographic markets, and to drive broad adoption of our products and services. Our investment strategy is (i) to deepen strategic cooperation with partners through investing and becoming active shareholders and (ii) to apply financial investment rigor and invest in only our best-in-class partners.

After years of effort, we have established a unique ecosystem business model for strategic investments. Leveraging our strong capabilities in R&D and product design, as well as our superior brand and sales networks, we empower our ecosystem partners and accelerate their growth, creating a win-win scenario. As of March 31, 2021, we had invested in more than 320 companies with an aggregate book value of RMB51.9 billion (US$7.9 billion). We believe our strategic investments have not only allowed us to forge close partnerships with investee companies to create synergies across our ecosystem, but have also provided us with stable and recurring investment income.

Competition

The markets for our products and services are highly competitive and we are confronted by aggressive competition in all areas of our business. These markets are characterized by frequent product introductions and rapid technological advances that have substantially increased the capabilities and use of mobile communication and media devices, laptops and other smart devices. We generally compete with other internet companies for user time spent. Principal competitive factors important to us include product features, relative price and performance, product quality and reliability, design innovation, software integration and user experience, marketing and distribution capability, service and support and corporate reputation. Our main competitors include domestic and global internet industry leaders, as well as major producers of smart devices.

We experience significant competition for highly skilled personnel, including management, engineers, designers and product managers. Our growth depends in part on our ability to retain our existing personnel and recruit highly skilled employees.

Employees

As of March 31, 2021, we had 23,410 full-time employees, 21,607 of whom were based in mainland China, primarily at our headquarters in Beijing. We expect to continue to increase our headcount in mainland China and our key target global markets. As of March 31, 2021, our research and development personnel, totaling 10,407 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of March 31, 2021, 14,921 employees held share-based awards. In the first quarter of 2021, the total remuneration expenses, including share-based compensation expenses, were RMB3.4 billion (US$0.5 billion), representing an increase of 10.5% from the fourth quarter of 2020.

As required under the regulations of mainland China, we participate in various employee social security insurance programs that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury and unemployment benefit insurance, under which we make contributions at specified percentages of the salaries of our employees.

Insurance

We maintain various insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering all risks of physical loss, destruction or damage to the inventory of our products and our fixed assets. We also maintain public liability insurance for our Mi Homes in mainland China to protect against a variety of claims, including bodily injury, property damage and personal injury, that may arise from the business operations of our Mi Homes. In addition, we have purchased construction all risks insurance for our Mi Homes under construction, which provides coverage for property damage and third-party injury or damage claims that may arise from the construction projects. We maintain product liability insurance for our ecosystem hardware products sold in North America. We also maintain trade insurance for our overseas transactions in certain other markets.

In line with general market practice, we do not maintain sufficient business interruption insurance, which is not mandatory under the relevant laws of mainland China. We do not maintain sufficient key-man life insurance or insurance policies covering damages to our IT infrastructure or IT systems. See "Risk Factors – Risks Relating to Our Business and Industry – We have limited insurance coverage which could expose us to significant costs and business disruption."

Properties

We operate our businesses through our leased properties and owned properties in many countries and regions, including, but not limited to, mainland China, India, Indonesia, Russia, Hong Kong, Japan, Thailand, Vietnam, the Philippines, Bangladesh, Malaysia, Mexico, Spain, Poland, Italy, Germany, the Netherlands, UK, Finland, USA and UAE. Our leased and owned properties serve as our offices, Mi Home stores, research and development centers, customer service centers and other operational facilities. We have acquired land use rights for the construction of our office buildings in favorable locations in a number of cities in mainland China, including, but not limited to, Beijing, Guangzhou, Wuhan, Shenzhen and Nanjing. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

Legal Proceedings

Regarding the U.S. Department of Defense decision on January 14, 2021 to designate Xiaomi Corporation as a "Communist Chinese Military Company" ("CCMC"), on May 25, 2021, the U.S. District Court for the District of Columbia issued a final order vacating the U.S. Department of Defense's designation of our Company as a CCMC. In vacating the designation, the court formally lifted all restrictions on U.S. persons' ability to purchase or hold securities of our Company.

Save as disclosed above, we are not involved in any material litigation or arbitration as of the date of this offering memorandum, nor were the Directors of our Company aware of any material litigation or claims that were pending or threatened against our Company. We have in the past and may from time to time be subject to various legal or administrative claims and proceedings arising in the ordinary course of our business. The majority of the legal proceedings involve intellectual property claims initiated by us to protect intellectual properties owned by or licensed to us. The legal proceedings against us include claims brought by other technology companies and smartphone manufacturers relating to intellectual property infringement. See the section headed "Risk Factors – Risks Relating to Our Business and Industry – We could be impacted by unfavorable results of legal and administrative proceedings, such as being found to have infringed on intellectual property rights."

ENVIRONMENT AND SOCIETY – OUR SUSTAINABILITY APPROACH

From the moment our Company was founded in 2010, we have been committed to improving the world we live in. From the start, we have worked to embed this commitment to sustainability into our strategy, our business processes and decision-making. Sustainability is core to our project planning and operational activities. We aim to provide our products and services in a responsible manner – in a way that balances short- and long-term interests, and that integrates economic, environmental, and social considerations. In 2020, we joined the United Nations Global Compact and committed to its ten stipulated principles of corporate responsibility.

Our Approach to Sustainability

At the heart of Xiaomi is our purpose to enhance people's lives through technology. We do this by keeping our prices honest, by engaging our customers in a friendly way, and by contributing to sustainable development. We regularly conduct materiality analyses to determine the issues that we should focus on in our sustainability strategy. When deciding on our strategy, we take into account the views of our stakeholders, the issues determined to be material by our analysis and the wider international sustainable development frameworks, such as the United Nations Sustainable Development Goals.

From these, we determine that our sustainability strategy and contributions to sustainable development should focus on the following five pillars:

- Our products and customers;
- Our environment management;
- Our people;
- Our supply chain; and
- Our community contributions.

Our Products and Customers

At Xiaomi, our mission is clear: to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. We aim to be friends with our users, and be the coolest company to them. That is why we have developed an innovation mindset throughout the company. It is why we strive for increasingly better customer service and why we continually engage our Mi Fans in our values to help us advance our mission. Through our technology strategy and customer commitment, we contribute to the United Nations Sustainable Development Goals. We are focused on improving health and wellbeing (SDG 3); industry and innovation (SDG 9) with our products and through industry advocacy; and making cities safe and sustainable (SDG 11).

Affordability

We love to develop amazing products with honest prices, and we are committed to keeping our technology affordable. With our ethos of meeting 80% of the needs of 80% of the population in China, it is important to us that our prices are competitive. We aim to always develop high-quality products without unnecessary costs. It's our pledge to ensure that the profit margin of the Xiaomi Hardware Business, which includes smartphones, IoT products and lifestyle products, is limited to a maximum of 5% a year. Any excess profit is returned to customers via promotions and benefits. We have a key focus on innovation and the research and development we do throughout the business helps to deliver on our customer promise.

Innovation

The nature of our mission and customer promise means that product quality is at the core of our strategy and the development of innovative new products is central to our success as a business. We drive the innovation process within the company through our technology committee which we set up in 2019. This ensures that we address the whole ecosystem, thinking through strategy, organization, talent, and culture and cooperation of our industry. Recent highlights of our efforts to explore innovations to support our sustainability approach include the following:

- *Development of a "smart" factory*. In 2019, we used the valuable experience gained over years of collaboration with our manufacturing partners to develop a "smart" factory – one which is largely automated and operates with industrial robots. We have now developed a fully automated production line for our flagship smartphones using cutting-edge technologies.

- *Decision to expand into the smart electric vehicle market*. In March 2021 we announced our decision to move into the smart electric vehicle market. We plan to invest an estimated amount of US$10 billion into this business over the next decade. This is an important next step for Xiaomi and one that we believe will make us a company that manufactures products designed specifically for the low carbon economy of the future. Entering into this business would allow us to continue to expand our smart AIoT ecosystem and fulfill our mission of letting everyone in the world enjoy a better life through innovative technology.

- *Solutions to global issues*. As part of our commitment to contribute to the UN Sustainable Development Goals, we have become a partner in the development of an earthquake early warning system. In China, and available soon in other countries with earthquake zones, our mobile phones running the MIUI software (11 and above) and MI TVs can notify consumers within seconds of an earthquake occurring. The alert also provides information about the nearest emergency shelter, emergency contact details, medical contacts, and the rescue information to help in a critical situation. The project was nominated in Best Mobile Innovation supporting Emergency or Humanitarian Situations of the MWC awards, run by the Mobile World Congress, a major annual industry event. During 2020, the Xiaomi MIUI Earthquake Alert has detected 29 earthquakes above magnitude 4.0 and sounded more than 9.4 million alerts.

In 2020, we invested RMB9.3 billion (US$1.4 billion) in research and development and submitted more than 8,000 patent applications. We filed 516 of our applications under the Hague System of international design, making us the fifth-biggest user of the system that year. It is the first time a company based in China has made it to the top five. By the end of 2020, we had accumulated more than 19,000 patents in total.

We were placed on the Clarivate Analytics Top 100 Innovation List in 2019, 2020 and 2021, and we ranked the 31st in the Boston Consulting Group's 2021 Global 50 Innovators list. We were named one of "50 Smartest Companies" (TR50) by the Massachusetts Institute of Technology Review at the EmTech China 2020 Global Kexing Technology Summit.

Customer care and satisfaction

Our fans and customers expect great products and a positive customer experience. When customers buy a Xiaomi product, they are buying into a whole network of innovation and support. We ensure that our after-sales service is truly world-class, and we constantly review our repair and maintenance services to ensure they are as helpful and effective as possible. By the end of 2020, we had 656 outlets for carry-in repair, 1,533 outlets for home service, 18 delivery repair centers and eight spare parts warehouses.

In 2020, in an effort to improve the response time of our after-sales service, we launched two fast-response services and incorporated response time into the evaluation criteria of our after-sales service teams. Our one-hour service allows a quick turn-around service in store, and a two-hour response service where a specialist will contact the user to schedule an appointment.

Our customer service telephone hotline has a 97% approval rating, and our online service has a 91% approval rating. We have won awards for our after-sales service throughout 2020, including the Indonesia Contact Center Association Certified Platinum award in the Customer Experience category.

During the COVID-19 pandemic, we adapted to better serve our customers and help protect their health. Over the 2020 Christmas season, we launched a door-to-door replacement service in Europe. In Germany, we provided a pick-up and replace service at no additional charge for our high-end devices.

Our Environment Management

We are committed to reducing the environmental impact of our business. As well as reducing our emissions, we are using renewable energy, improving our energy efficiency and working towards becoming carbon neutral. As a company that designs, markets and sells smart products, our offices, stores, data centers and products are where we have the most direct impact on the environment, and where we can make the most significant positive changes.

We also use good design to reduce our overall carbon footprint. The award-winning packaging for our IoT product, such as Mi Band 4C is a good example of this, as is our decision to have our customers choose whether they want to include chargers when they purchase our smartphones, at the same price. As we rely on third parties to manufacture our products, we know that we can influence the suppliers and factories and encourage them to cut down on energy use and reduce their environmental impact.

We are committed to the United Nations Sustainable Development Goals. Our environment policies align to SDG 11 (Sustainable cities), SDG 12 (Responsible consumption and production), and SDG 15 (Life on land). Recent highlights of our efforts to reduce our comprehensive carbon footprint and mitigate our impact on climate change include the following:

- *Operational carbon emissions*. We have a specific green and energy-saving strategy in place, bolstered by our headquarters at the Xiaomi Science and Technology Park in Beijing. This campus, which was opened in 2019, has been designed with green and energy-saving principles in mind, to harness solar power to heat water and cut down on waste. During 2020, this helped us save more than 1,400MWh of energy and reduced greenhouse gas emissions by approximately 1000 tons of CO2e, while our solar boiler heated more than 3,600 tons of water and our kitchen waste created 188 tons of compost.

- *Water and waste*. In Beijing, our campus has been designed to save water. The surfaces of sidewalks, squares and parking lots are made with permeable materials that allow water to infiltrate and flow through to the underground reserves. We have implemented various measures to reduce waste and improve our levels of recycling. For example, we use large trash cans in our campus to reduce the number of liners needed. We use a specialist waste-sorting company to process the daily waste in our offices and turn kitchen waste into granules for recycling. We also use qualified companies to process hazardous office waste such as printer cartridges and batteries. We recycle our office resources by donating computers that are no longer suitable for our purpose to local charities and NGOs, or by sending them to specialist recyclers.

- *Packaging, design and natural resources*. We are committed to reducing the amount of packaging used by our products. Over the last three years, we have been redesigning and modifying packaging across our range of products and have developed a style of box that only uses one sheet of paper, cutting down packaging by up to 40%. We have also redesigned the packaging used for our flagship Mi 11 smartphone, which was launched in China in December 2020. The new packaging is 20% lighter, has two fewer packaging components and no longer uses any form of plastic or film. The packaging volume has been reduced by 45% with the associated cumulative weight reductions cutting overall distribution emissions. In 2020, we removed 60% of the plastic from our Mi 10T and Mi 10T Pro series of handsets. We are proud that the new One Paper Box design was introduced in some non-phone products, which won a 2020 Red Dot Design Award, a prestigious international product design award run by German company Red Dot GmbH.

- *Product longevity and reparability*. We have been actively working on increasing the longevity and reparability of our products. Our Redmi 9A handset comes with a 5,000mAh battery with a 1000 charge cycle which doubles the smartphone's expected lifespan. The Mi 11/Mi 11 Pro/Mi 11 Ultra come with super-tough glass making it 1.5 times more resistant if dropped and two times more resistant to scratches. Our flagship smartphone Mi 11 also scored 8 out of 10 on the official French reparability index. We are also aware of the impact our products have on the environment when they reach their end-of-life, and are expanding our trade-in service, which is currently available in China to Europe and India, giving customers the option to recycle their old products without leaving home.

Our People

Our people are central to our business and, as we grow and sell our products across the globe, we are committed to being a truly world-class employer. We have built on brand based on trust, respect, the engagement we have with our fans and the joy we bring them. Our brand values of sincerity and passion permeate through our Company and are upheld by all Xiaomi employees.

Xiaomi culture

We are focused on being the most user-centric mobile internet company in the world, and many of our employees were fans of our products before joining us. We are all passionate about pushing the boundaries of technology to create a better world for everyone. As a company, we have a flat management structure designed to encourage collaboration and creativity. Outside of work, we have plenty of employee clubs, organizations and events, ranging from sports clubs to our annual 'Mi Idol' talent competition.

A global people strategy

We are focused on using our employment practices to contribute to relevant United Nations Sustainable Development Goals. In 2020, we have:

- promoted employee diversity across 20 countries and territories [SDG 5];
- granted a total of 137,947,024 award shares to selected participants covering 4,686 issues [SDG 10];
- provided diverse vocational, management and career development training for employees [SDG 8]; and
- implemented the new Mi Project Emergency Response Manual to maintain high levels of health and safety including supporting employees during the COVID-19 pandemic [SDG 3].

Talent attraction, training and development

As a company, our day-to-day work is designing and marketing great products. That means that talent attraction, training and development is such an important part of our strategy. We rely on our people and their skills to make us what we are.

Despite the pandemic, we continued to recruit through the whole of 2020. We hired almost 8,000 people in 2020. We recruited at all levels. We took on more than 2,000 graduate recruits after receiving 160,000 applications. Across the whole of our business, from operations to innovation, and from R&D to marketing, talent development is central to our success and the competitiveness of the company. We are keen to attract top talent and hold this as a key priority in the development of our new international headquarters in Shenzhen.

As part of our commitment to training, we have set up an in-house training center, called Qinghe University, where we provide tailored development in a campus environment. This is in addition to our local training provisions. In 2020, more than 12,000 employees were trained there, including the Annual Leadership Program, which covers 2,940 managers, and the center delivered 57,598 hours of learning.

Diversity, inclusion and engagement

All of our recruitment is firmly meritocratic. For both recruitment and compensation, we do not take account of ethnicity, age, marital status, religious belief or any other defining characteristics.

We have an award-winning program in place to provide disabled people with employment and provided jobs for 185 disabled people in 2020. More than 40 visually impaired people are working on our artificial intelligence virtual classmate project for the education sector. The project involves identifying and categorizing voice commands using headphones and screen-reading software.

In addition, it is our policy to provide our employees with equity in the company to allow them to share in our growth. In 2020, the board granted a total of 137,947,024 restricted stock units (RSU) to participants of the employee equity incentive scheme covering 4,686 issues. This covers a wide range of people who contribute to the Group and includes full- and part-time employees, consultants, distributors and joint venture partners.

We conducted our latest employee engagement survey in October 2020. 98% of our employees said they agreed with Xiaomi's values and were willing to strive for higher goals and greater challenges. 95% of employees said that they liked the team atmosphere. These high scores are consistent with results from recent years. The survey was carried out using a confidential online questionnaire so that employees are encouraged to provide full feedback. All employees of at least six months standing were surveyed, and the active participation rate was more than 85%.

Our Supply Chain

Our supply chain is large and complex as our product range is wide, including items as diverse as smartphones, smart TVs, fitness bands, washing machines, scales, and air purifiers. A variety of suppliers provide the components that make up our products and third-party manufacturers assemble them. We envisage, design and market our products. Therefore, it is of particular importance for us to ensure the sustainability and ethics of our suppliers, and that they match ours, both as a business and as a global corporate citizen. Our commitment to the responsibility of our supply chain helps contribute to the United Nations Sustainable Development Goals. Specifically, SDG 12, which relates to responsible consumption and production.

We are constantly monitoring specific risks to improve the resilience of our operations. We have contingency plans in place and are constantly looking to build resilience into our supply chain in markets where we operate. For example, we have recently expanded some of our manufacturing capacity in India and Indonesia, creating jobs and decent work in these areas.

As a company that is heavily reliant on our suppliers, we are in a position to influence them to improve their own operations. And, over the last few years, we have been increasing our focus on improving the environmental impact of our supply chain and have audited our core suppliers and provided them with recommendations to improve their performance.

We hold our suppliers to high standards of behavior and expect them to adhere to all local laws and international standards and conventions. It is also our policy to make acceptance of our higher ESG standards an important consideration when choosing new suppliers. We adhere to the RBA (Responsibility Business Alliance) Code of Conduct and JAC (international telecommunication union audit cooperation organization), the telecom industry sustainable supply chain guidance SA8000, and international standards ISO14001 and ISO45001. From these, we have drawn up a Supplier Social Responsibility Code of Conduct (the Code) that we expect our suppliers to adhere to. The Code covers all key aspects of good practice including human rights, pay and conditions, anti-discrimination, occupational health and safety, environmental protection and chemicals management, business ethics and whistleblower protection. Suppliers are expected to train their employees to adhere to our Code and regularly conduct self-assessments to demonstrate compliance. If an audited supplier falls short of our standards, we inform them and ask them to draw up a rectification plan and remedy the problem within four months. They must provide us with monthly improvement reports until the situation has been rectified.

Resilience of our supply chain – our COVID-19 response

While 2020 had its own particular challenges, we continued to make strides to improve the robustness and sustainability of our supply chain. At the start of the outbreak in 2020, the supply of our products was severely affected as our suppliers and manufacturers were unable to work. After the period of lockdown in China, members of our senior team visited manufacturing partners across China to discuss how production could safely start again. In partnership with our suppliers and the government, we were able to help recruit new employees where needed and provide COVID testing, isolation services, and protective equipment. Through these efforts, production was started again with close monitoring of the health and safety of employees.

Our Community Contribution

Since the day our Company was founded in 2010, we have been committed to helping the community by making charitable donations and supporting projects through employee volunteering.

In 2020, we donated a total of RMB141 million (US$21.5 million) to charity. As we grow as a company and expand around the world, we evaluate and reevaluate what our strategy should be in every location in which we operate. Our strategy focuses on helping to alleviate poverty, contribute to education, help people with disabilities, and swiftly respond to disasters.

Poverty alleviation

It is important to us, that where we can, we support those at risk of poverty and in great need. Within China, there are some sectors of society and some provinces that we take care to support, and the same is true in times of need in our European markets. In 2020, Xiaomi supported many poverty-stricken areas by offering cash donations and employment opportunities. In May 2020, Beijing Xiaomi Foundation donated RMB2 million to the Hubei Provincial Poverty Alleviation Fund, supporting poverty alleviation projects across 454 villages in Hubei with average donation amount of RMB2,000 (US$305) per person.

Contributing to education

At Xiaomi, we believe having education is one of the most important things for everyone. We focus on supporting educational projects all over the world to help children of school age and supporting older children into university education, with a focus on Science, Technology, Engineering and Math (STEM) subjects, which are so vital to our industry. In 2020, we set up the Xiaomi Education Fund and provided it with RMB50 million (US$7.6 million) to help low-income students attend ten of the most prestigious universities in China. We helped low-income families in Wuhan access higher education by providing students with RMB5,000 (US$763) annual grants per person.

Supporting people with disabilities

We strongly believe that opportunity should be an equal right, and we strive for equality in access to technology. Throughout our product development process, we make sure that accessibility functions are implemented on our devices. Equally, we want to make sure that people with additional needs can use technology and we therefore run specific programs to support the development of these skills to enable and assist the use of technology. In 2020, we ran a donation and education program in Gansu, China to help people with visual impairments benefit from technology and smart products. As well as donating smartphones and smart speakers, we have also set up teaching programs to educate people to use them.

Disaster relief

It is imperative to us that we support those suffering due to natural disasters and other catastrophic events. We want to be able to provide help in the immediate aftermath of floods or earthquakes, for example. In early 2020, Yunnan suffered a severe drought – the worst it had experienced in almost ten years. We helped with a project to provide drinking water, donating RMB250,000 (US$38,157) to supply 18 village groups, helping a total of 2,491 people.

In 2020, as the COVID-19 pandemic spread across the globe, it was obvious that our community response should be to donate money and supplies to help fight the disease. We made donations of cash and goods worth a total of RMB80 million (US$12.2 million), helping people in more than 15 countries.

The following discussion summarizes certain aspects of mainland China and Hong Kong law and regulations, which are relevant to our operations and business.

REGULATIONS RELATING TO VALUE-ADDED TELECOMMUNICATION SERVICES

Licenses for Value-Added Telecommunication Services

The Telecommunications Regulations of the People's Republic of China, or the Telecommunications Regulations, promulgated by the State Council on September 25, 2000 and last amended on February 6, 2016, provide a regulatory framework for telecommunications services providers in mainland China. The Telecommunications Regulations require telecommunications services providers to obtain an operating license prior to the commencement of their operations. The Telecommunications Regulations categorize telecommunications businesses into basic telecommunications businesses and value-added telecommunications businesses. According to the Catalog of Telecommunications Business, attached to the Telecommunications Regulations and last amended by MIIT, on June 6, 2019, information services provided via fixed network, mobile network and Internet fall within value-added telecommunications services.

The Administrative Measures on Internet Information Services, or the Internet Measures, which was promulgated by the State Council on September 25, 2000 and amended on January 8, 2011, set out guidelines on the provision of internet information services. The Internet Measures classified internet information services into commercial internet information services and non-commercial internet information services, and a commercial operator of internet content provision services must obtain an ICP license for the provision of internet information services from the appropriate telecommunications authorities. The Administrative Measures for Telecommunications Businesses Operating Licensing, which was promulgated by MIIT on July 3, 2017 and became effective on September 1, 2017, provides that a commercial operator of value-added telecommunications services must first obtain an ICP license, from MIIT or its provincial level counterparts. In addition, in the first quarter of every year while the operator is holding the license, it must report information such as business performance and service quality to the issuing authorities.

Restrictions on Foreign Investment in Value-Added Telecommunication Services

Foreign direct investment in telecommunications companies in mainland China is governed by the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, which was promulgated by the State Council on December 11, 2001 and amended on September 10, 2008 and February 6, 2016, respectively. The regulations require foreign-invested value-added telecommunications enterprises in mainland China to be established as Sino-foreign equity joint ventures, which the foreign investors may acquire up to 50% of the equity interests of such enterprise. In addition, the main foreign investor who invests in a foreign-invested value-added telecommunications enterprises operating the value-added telecommunications business in mainland China must demonstrate a good track record and experience in operating a value-added telecommunications business; the main foreign investor is defined as the one who makes the largest contribution among all foreign investors and has a share of 30% or more of the total amount invested by all foreign investors. Moreover, foreign investors that meet these requirements must obtain approvals from MIIT and MOFCOM, or their authorized local counterparts, which retain considerable discretion in granting approvals, for the commencement of that investor of value-added telecommunication business in mainland China.

In July 2006, the Ministry of Information Industry, or the MII, which is the predecessor of MIIT, released the Notice on Strengthening the Administration of Foreign Investment in and Operation of Value-added Telecommunications Business, or the MII Notice, pursuant to which, domestic telecommunications enterprises were prohibited to rent, transfer or sell a telecommunications business operation license to foreign investors in any form, or provide any resources, premises, facilities and other assistance in any form to foreign investors for their illegal operation of any telecommunications business in mainland China. In addition, under the MII Notice, the internet domain names and registered trademarks used by a foreign-invested value-added telecommunication service operator shall be legally owned by that operator (or its shareholders).

Investment activities in mainland China by foreign investors are mainly governed by the Special Administrative Measures for Access of Foreign Investment (Negative List) (2020 Edition), or the Negative List, which was promulgated jointly by MOFCOM and the NDRC on June 23, 2020 and became effective on July 23, 2020. Foreign investors shall not invest in any of the prohibited sectors specified in the Negative List; they must obtain the permit for access of foreign investments if they intend to invest in other sectors that are not prohibited; if they intend to invest in sectors subject to limits on the proportion of foreign investment, they are not allowed to establish foreign-invested partnerships. According to the Negative List, Telecommunications companies are limited to investment in the telecommunications business opened according to China's WTO accession commitments; the proportion of foreign investment in a value-added telecommunications business (excluding e-commerce business, domestic multi-party communications, store-and-forward and call center) shall not exceed 50 percent, and investment in internet news services, online publishing services, online audio-visual program services, internet culture operation (excluding music), and internet public-oriented information releasing services (excluding content of the abovementioned services that is permitted under China's WTO accession commitments) is prohibited.

REGULATIONS RELATING TO MANUFACTURE AND SALE OF MOBILE PHONES

General Administration of Manufacturing and Selling Mobile Phones

According to the Administrative Regulations for Compulsory Product Certification, which was promulgated by the General Administration of Quality Supervision, Inspection and Quarantine P.R.C., or the AQSIQ (which has merged into the State Administration for Market Regulation) on July 3, 2009 and became effective on September 1, 2009, products specified by the state shall not be delivered, sold, imported or used in other business activities until they are certified, or the Compulsory Product Certification, and labeled with China Compulsory Certification mark. For products that are subject to Compulsory Product Certification, the state implements unified product catalogs, or the 3C Catalog, unified compulsory requirements, standards and compliance assessment procedures in technical specification, unified certification marks and unified charging standards. Pursuant to the First Batch Compulsory Product Certification Product Catalog, the First Batch 3C Product Catalog, by the AQSIQ and the Certification and Accreditation Administration of the People's Republic of China, or the CNCA, on December 3, 2001, mobile user terminals and CDMA digital cellular mobile station are required to obtain the Compulsory Product Certification in order to be delivered, sold, imported or used.

Besides the Compulsory Product Certification, the seller of radio component products in mainland China is required to obtain the Radio Transmission Equipment Type Approval Certificate in accordance with the Radio Regulation of the People's Republic of China, which was promulgated by the State Council, Central Military Commission on September 11, 1993, and amended on November 11, 2016, and the Administrative Regulations on Manufacturing of Radio Transmission Equipment, promulgated by the State Radio Regulation Committee, or the SRRC, and the State Bureau of Technical Supervision, or the SBTS, the predecessor of the AQSIQ on October 7, 1997.

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

Regulations on Product Quality

Products made in mainland China are subject to the Product Quality Law of the People's Republic of China, or the Product Quality Law, which was promulgated on February 22, 1993, amended on July 8, 2000, August 27, 2009 and December 29, 2018. According to the Product Quality Law, a manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not exist at the time when the product was circulated; or (iii) scientific or technological knowledge at the time when the product was circulated was not such that it allowed the defect to be discovered.

The Consumer Rights and Interests Protection Law of the People's Republic of China, or the Consumers Protection Law, was promulgated on October 31, 1993 and became effective on January 1, 1994. The Consumers Protection Law has been further revised on August 27, 2009 and October 25, 2013. According to the Consumers Protection Law, unless otherwise provided by this law, an operator that provides products or services may bear civil liability in accordance with the Product Quality Law and other relevant laws and regulations. The Civil Code of the People's Republic of China, promulgated on May 26, 2020 and came into force on January 1, 2021, provides that in the event of damage arising from a defective product, the victim may seek compensation from either the manufacturer or seller of such a product. If the defect is caused by the seller, the manufacturer shall be entitled to seek reimbursement from the seller upon compensation to the victim. If the defect is caused by the manufacturer, the seller shall be entitled to seek reimbursement from the manufacturer upon compensation to the victim.

Registration for Import and Export Goods

Pursuant to the Customs Law of the People's Republic of China promulgated by the Standing Committee of the National People's Congress, or SCNPC on January 22, 1987, and last amended on April 29, 2021, unless otherwise stipulated, the declaration of import and export goods may be made by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

Pursuant to the Administrative Provisions of the Customs of the People's Republic of China on the Registration of Customs Declaration Entities promulgated by the General Administration of Customs on May 29, 2018 and came into force on July 1, 2018, coming into force on March 13, 2014, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. The consignor or consignee of imported and exported goods shall register with local customs in accordance with the laws.

REGULATIONS RELATING TO MOBILE INTERNET APPLICATIONS INFORMATION SERVICES

Mobile internet application is governed by the Provisions on the Administration of Mobile Internet Applications Information Services, or Provisions on Administration of Application, promulgated by the Cyberspace Administration of China, or the CAC on June 28, 2016 and became effective on August 1, 2016.

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

REGULATIONS RELATING TO INFORMATION SECURITY AND CENSORSHIP

Internet content in mainland China is regulated and restricted from a state security standpoint. SCNPC enacted the Decisions on the Maintenance of Internet Security on December 28, 2000, which was amended on August 27, 2009, that may subject persons to criminal liabilities in mainland China for any attempt to: (i) gain improper entry to a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak state secrets; (iv) spread false commercial information or (v) infringe intellectual property rights. In 1997, the Ministry of Public Security issued the Administration Measures on the Security Protection of Computer Information Network with International Connections, which were amended by the State Council on January 8, 2011 and prohibit using the internet in ways which, among others, result in a leakage of state secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection powers in this regard, and relevant local security bureaus may also have jurisdiction. If an ICP license holder violates these measures, the government of the People's Republic of China may revoke its ICP license and shut down its websites.

On November 7, 2016, the SCNPC promulgated the Cyber Security Law of the People's Republic of China, which became effective on June 1, 2017, pursuant to which, network operators shall comply with laws and regulations and fulfill their obligations to safeguard security of the network when conducting business and providing services. Those who provide services through networks shall take technical measures and other necessary measures pursuant to laws, regulations and compulsory national requirements to safeguard the safe and stable operation of the networks, respond to network security incidents effectively, prevent illegal and criminal activities, and maintain the integrity, confidentiality and usability of network data, and the network operator shall not collect the personal information irrelevant to the services it provides or collect or use the personal information in violation of the provisions of laws or agreements between both parties, and network operators of key information infrastructure shall store within the territory of mainland China all the personal information and important data collected and produced within the territory of mainland China. The purchase of network products and services that may affect national security shall be subject to national cyber security review. On April 13, 2020, the CAC and other departments issued the Measures for Cybersecurity Review, which took effect on June 1, 2020, to provide for more detailed rules regarding cyber security review requirements.

REGULATIONS RELATING TO PRIVACY PROTECTION

On December 13, 2005, the Ministry of Public Security issued the Regulations on Technological Measures for Internet Security Protection, or the Internet Protection Measures, which took effect on March 1, 2006. The Internet Protection Measures require internet service providers to take proper measures including antivirus, data back-up and other related measures, and to keep records of certain information about their users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days, and detect illegal information, stop transmission of such information, and keep relevant records. In December 2012, the SCNPC promulgated the Decision on Strengthening Network Information Protection to enhance the legal protection of information security and privacy on the internet. In July 2013, MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users' personal information in the provision of telecommunication services and internet information services in mainland China and the personal information includes a user's name, birth date, identification card number, address, phone number, account name, password and other information that can be used for identifying a user. On December 29, 2011, MIIT promulgated the Several Provisions on Regulation of the Order of Internet Information Service Market, which became effective on March 15, 2012. The Provisions stipulate that without the consent of users, internet information service providers shall not collect information relevant to the users that can lead to the recognition of the identity of the users independently or in combination with other information, nor shall they provide personal information of users to others, unless otherwise provided by laws and administrative regulations. On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information, which clarifies several concepts regarding the crime of "infringement of citizens' personal information" stipulated by Article 253A of the Criminal Law of the People's Republic of China, including "citizen's personal information," "provision," and "unlawful acquisition." Also, it specifies the standards for determining "serious circumstances" and "particularly serious circumstances" of this crime. On May 28, 2020, the National People's Congress of the PRC approved the PRC Civil Code, which took effect on January 1, 2021. Pursuant to the PRC Civil Code, the collection, storage, use, process, transmission, provision and disclosure of personal information shall follow the principles of legitimacy, properness and necessity. On June 10, 2021, the Standing Committee of the National People's Congress issued the Data Security Law of the People's Republic of China (the "Data Security Law"), which will take effect on September 1, 2021. The Data Security Law requires that date collection shall be conducted in a legitimate and proper manner, and theft or illegal collection of data is not permitted. Data processors shall establish and improve the whole-process data security management rules, organize and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. In addition, data processing activities shall be conducted on the basis of the graded protection system for cybersecurity. Monitoring of the data processing activities shall be strengthened, and remedial measures shall be taken immediately in case of discovery of risks regarding data security related defects or bugs. In the case of data security incidents, responding measures shall be taken immediately, and disclosure to users and report to the competent authorities shall be made in a timely manner.

REGULATIONS RELATING TO ONLINE GAMES

General Administration of Online Games

The Notice on Interpretation of the State Commission Office for Public Sector Reform on Several Provisions relating to Animation, Online Game and Comprehensive Law Enforcement in Culture Market in the 'Three Provisions' jointly promulgated by the Ministry of Culture (which has merged into the Ministry of Culture and Tourism), the State Administration of Radio, Film, and Television, or SARFT (which has merged into SAPPRFT) and the General Administration of Press and Publication, or GAPP, which was issued by the State Commission Office for Public Sector Reform (a division of the State Council) and became effective on September 7, 2009, provides that GAPP will be responsible for the examination and approval of online games to be uploaded on the internet and that, after such upload, online games will be administered by the Ministry of Culture.

The Interim Measures for the Administration of Internet Games, the Internet Game Measures, issued by the Ministry of Culture on June 3, 2010, amended on December 15, 2017, regulate a broad range of activities related to the internet game business, including the development and production of internet games, the operation of internet games, the issuance of virtual currencies used for internet games, and virtual currency trading services. The Internet Game Measures provides that any entity that is engaged in internet game operations must obtain an online culture operating permit, and require the content of an imported internet game to be examined and approved by the Ministry of Culture prior to the launch of the game and the content of a domestic internet game must be filed within 30 days of its launch with the Ministry of Culture. The Internet Game Measures also request internet game operators to protect the interests of online players and specify certain terms that must be included in the service agreements between internet game operators and the players of their internet games. The Notice of the Ministry of Culture on the Implementation of the Interim Measure for the Administration of Online Games issued by the Ministry of Culture and which took effect on July 29, 2010 specifies entities regulated by the Online Game Measures and procedures related to the review of the Ministry of Culture of the content of online games, emphasizes the importance of protecting minors playing online games and requests online game operators to promote real-name registration by their players. On July 10, 2019, the Ministry of Culture and Tourism issued the Decision to Repeal the Measures for the Administration of Online Games and the Measures for the Administration of Tourism Development Plans, which specifies that the Online Game Measures was abolished on July 10, 2019.

On May 24, 2016, SAPPRFT promulgated the Notice on the Administration over Mobile Game Publishing Services, which became effective as of July 1, 2016. The Notice provides that game publishing service entities shall be responsible for examining the contents of their games and applying for game publication numbers. On December 1, 2016, the Ministry of Culture promulgated the Circular of the Ministry of Culture on Regulating the Operation of Online Games and Strengthening the Interim and Ex Post Supervision, which became effective on May 1, 2017. The Circular sets requirements in relation to the following aspects of online games: (i) clarifying the scope of online game operation; (ii) regulating services for issuance of virtual props of online games; (iii) strengthening the protection of the rights and interests of online game users; (iv) strengthening the interim and ex post supervision of online game operation; and (v) seriously investigating and punishing illegal operating activities.

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

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

On March 30, 2021, the Ministry of Education of the PRC issued the Notice on Further Strengthening Sleep Management of Primary and Secondary School Students, which further stipulates the time slot for playing online games by minors, and requires local education authorities, jointly with the competent local authorities, to effectively strengthen the administration of online games, and conduct supervision through technical measures to ensure no game service is provided for minors during a specified timeframe.

Regulations on Virtual Currency

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

Restrictions on Foreign Investment about Online Games

The Notice Regarding the Consistent Implementation of the "Regulation on Three Provisions" of the State Council and the Relevant Interpretations of the State Commission Office for Public Sector Reform and the Further Strengthening of the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games, or the GAPP Notice, promulgated by GAPP, together with the National Copyright Administration and the Office of the National Working Group for Crackdown on Pornographic and Illegal Publications, on September 28, 2009, provides, among other things, that foreign investors are not permitted to invest or engage in online game operations in mainland China through wholly-owned subsidiaries, equity joint ventures or cooperative joint ventures, and expressly prohibits foreign investors from gaining control over or participating in domestic online game operations indirectly by establishing other joint venture companies, establishing contractual agreements or providing technical support. Serious violation of the GAPP Notice will result in suspension or revocation of relevant licenses and registrations. On June 23, 2020, MOFCOM and the NDRC jointly issued the "Special Administrative Measures (Negative List) for Foreign Investment Access (2020 Version)", according to which, foreign investment in telecommunications carriers are limited to the telecommunications services in the commitments made by China upon WTO accession. The foreign stake in a value-added telecommunications service may not exceed 50% (except e-commerce, domestic conferencing, store-and-forward, and call center services), and the Chinese party shall be a controlling stakeholder in basic telecommunications business.

REGULATIONS RELATING TO INTERNET PUBLICATION

License for Internet Publication

On February 4, 2016, GAPP and MIIT jointly issued the Regulations on Administration of Internet Publication Services, the Internet Publication Regulations, which became effective on March 10, 2016. The Internet Publication Regulations imposed a license requirement, or the Internet Publishing Service License, for internet publishing activities.

Restrictions on Internet Content

The content of the internet information is also highly regulated in mainland China. On February 16, 2007, GAPP promulgated the Notice of the General Administration of Press and Publication on Strengthening Review Work of Audio-visual Products and Electronic Publication Items and Internet Publication Items, pursuant to which GAPP shall strengthen the review of internet publication items, including

(i) annual topic plan review for those unpublished video and audio products and electronic publication,

(ii) special review and daily review for published video and audio products and electronic publication; and

(iii) regulation of internet publication content. According to the Internet Measures, violators who provide prohibited internet content may be subject to penalties, including criminal sanctions, operation suspension and rectification, or even revoking ICP licenses.

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

Restrictions on Foreign Investment in Internet Publication

Investment activities in mainland China by foreign investors are mainly governed by the Catalog, which was promulgated jointly by MOFCOM and the NDRC on June 23, 2020. The Catalog divides industries into four categories in terms of foreign investment. Those categories are: "encouraged," "restricted," "prohibited" and all industries not listed under one of these categories are deemed to be "permitted." According to the Catalog, the internet information services that our Company's subsidiaries in mainland China currently offer falls within the scope of value-added telecommunications services (except for e-commerce) and internet cultural businesses (except for music), which are under the "restricted" categories and "prohibited" categories, respectively. "Book editing" is under the "prohibited" categories as a newly added item.

REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The Copyright Law

China has enacted various laws and regulations relating to the protection of copyright. China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October 1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

The Copyright Law of the People's Republic of China, or the Copyright Law, which was last amended on June 1, 2021, provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of Chinese culture.

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

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

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

The Notice on Regulating Copyright Order of Internet Reproduction issued by the NCA in 2015 includes the following four major points: (i) clarify certain important issues related to internet copyrights in existing laws and regulations, including the definition of news, clarify statutory licenses that are not applicable to internet copyrights and prohibit the distortion of title and work intent; (ii) guide the press and media to further improve the internal management of copyrights, especially requesting the press to clarify the copyright sources of their content; (iii) encourage the press and internet media to actively carry out copyright cooperation; and (iv) ask the copyright administrations at all levels to strictly implement copyright supervision.

The Computer Software Copyright Registration Measures, or the Software Copyright Measures, promulgated by the National Copyright Administration on February 20, 2002, regulate registrations of software copyright, exclusive licensing contracts for software copyright and transfer contracts. The National Copyright Administration of China shall be the competent authority for the nationwide administration of software copyright registration and the Copyright Protection Center of China, or the CPCC, is designated as the software registration authority. The CPCC shall grant registration certificates to the Computer Software Copyrights applicants which conforms to the provisions of both the Software Copyright Measures and the Computer Software Protection Regulations.

The Provisions of the Supreme People's Court on Certain Issues Related to the Application of Law in the Trial of Civil Cases Involving Disputes over Infringement of the Right of Dissemination through Information Networks, promulgated by the Supreme People's Court in December 2012 and further revised on December 29, 2020 and took effect on January 1, 2021, stipulates that internet users or internet service providers who provide works, performances or audio-video products, for which others have the right of dissemination through information networks or make these available on any information network without authorization shall be deemed to have infringed upon the right of dissemination through information networks.

The Trademark Law

Trademarks are protected by the Trademark Law of the People's Republic of China, which was promulgated on August 23, 1982 and subsequently amended on February 22, 1993, October 27, 2001, August 30, 2013 and April 23, 2019 respectively as well as the Implementation Regulation of the Trademark Law of the People's Republic of China (Revised in 2014) adopted by the State Council on August 3, 2002. In mainland China, registered trademarks include commodity trademarks, service trademarks, collective marks and certification marks.

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

Domain Names

Internet domain name registration and related matters are primarily regulated by China Internet Network Information Center, or CNNIC Implementing Rules of Domain Name Registration issued by China Internet Network Information Center, or the CNNIC, the domain name registrar of mainland China, which became effective on May 29, 2012, the Administrative Measures for Internet Domain Names, issued by MIIT on August 24, 2017 and effective as of November 1, 2017, and the Measures on Domain Name Disputes Resolution issued by CNNIC which became effective on September 1, 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration.

Patent Law

According to the Patent Law of the People's Republic of China amended on October 17, 2020 and became effective on June 1, 2021 and the Detailed Rule for the Implementation of Patent Law amended on January 9, 2010, patent is divided into three categories: invention patent, utility model patent, and design patent.

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

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

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

REGULATIONS RELATING TO FINANCIAL BUSINESS

Regulations on Micro Lending Business

Pursuant to the Guiding Opinions on the Pilot Operation of Micro Lending Companies, to apply for setting up a micro lending company, the applicant shall file an application in due form with the competent department of the provincial government, and, upon approval, it shall apply to the local administrative department for industry and commerce for handling the registration formalities and get the business license. The major sources of funds of a micro lending company shall be the capital paid by shareholders, donated capital and the capital borrowed from at most two banking financial institutions. The balance of the capital borrowed from banking financial institutions shall not exceed 50% of the net capital within the scope as prescribed by laws and regulations. The loan interest ceiling shall be left open but below the ceiling determined by the judicial department, and the floor interest rate shall be 0.9 times the base rate published by PBOC.

On April 13, 2016, the Implementation Plan for the Special Rectification of Risks concerning Online Peer-to-Peer Lending was promulgated, aiming to maintain the economic and financial order and social stability. The priorities of the special rectification are to rectify and ban online and offline P2P lending business conducted by internet enterprises in violation of the regulations or beyond scope, and illegal and irregular activities such as illegal fund-raising in the name of P2P lending.

According to the Notice on Standardization and Rectification of "Cash Loan" Business issued on December 1, 2017 ("**Circular 141**"), online micro lending business should be strictly managed and without obtaining the qualifications for the lending business according to the law, no organization or individual may engage in the lending business. Circular 141 also stipulates that the overall costs charged by various lending institutions, including the annualized interest and all applicable service fees, must be capped at a rate in line with the opinions of the Supreme People's Court.

On September 7, 2020, CBIRC issued Notice of Strengthening the Supervision and Administration of Small Loans Companies ("**Circular 86**") in order to strengthen the supervision and administration, regulate the business operation behaviors, prevent and mitigate risks, and advance the regulated and sound development of the industry of small loan companies. Circular 86 points out that small loan companies should strengthen fund management, improve the business operation systems, regulate debt collection and improve information disclosure. Meanwhile, Circular 86 also stress that relevant authorities should intensify support to small loan companies and create a favorable environment.

Regulations on Payment Business

Pursuant to the Administrative Measures for the Payment Services Provided by Non-financial Institutions promulgated by PBOC on May 19, 2010, and was revised on April 29, 2020 to provide payment services, a non-financial institution shall obtain a Payment Business Permit and become a payment institution. An applicant for a Payment Business Permit a limited liability company or joint-stock company legally formed inside the People's Republic of China and it is the corporate body of a non-financial institution. A payment institution shall file the statistical statements, financial accounting report and other relevant materials on its payment business with the local branch of PBOC as required, and the proportion of its paid-in monetary capital against its daily average balance of clients' deposits shall not be lower than 10%. Where any payment institution continues to operate the payment business after its Payment Business Permit has expired, PBOC or the branch thereof shall order it to terminate the payment business. On January 13, 2017, PBOC promulgated the Notice on Matters concerning Implementing the Centralized Deposit of the Funds of Pending Payments of Clients of Payment Institutions. According to which, beginning on April 17, 2017, a payment institution shall deposit a certain percentage of the funds of pending payments of its clients in a special deposit account with a designated institution, and there is no interest on the funds in such an account for the time being. The percentage was adjusted by PBOC on December 29, 2017 in the Notice on Adjusting the Centralized Deposit Percentage of the Funds of Pending Payments of Clients of Payment Institutions, which requires the centralized deposit percentage to be raised by 10% on a monthly basis from February to April 2018.

Regulations on Commercial Factoring

The commercial factoring is a relatively new business model in mainland China, MOFCOM had issued circulars to promote commercial factoring in the specific regions. Pursuant to the Circular on the Pilot Work of Commercial Factoring, which was promulgated by MOFCOM on June 27, 2012, a trial implementation of commercial factoring pilot work was permitted in Tianjin Binhai New Area and Shanghai Pudong New Area to explore the approaches to develop the commercial factoring and to better utilize its role in expanding the export and promoting the development of small and medium enterprises. Later in December 2012, the said trial implementation of commercial factoring pilot work was extended to Guangzhou and Shenzhen, which allowed qualified investors from Hong Kong and Macau to establish commercial factoring company in the said cities. Pursuant to the Reply of the Ministry of Commerce on Launching Pilot Commercial Factoring Business in the Chongqing Liang Jiang New Area, the Sunan Modernization Development Demonstration Zone and the Suzhou Industrial Park, released by MOFCOM on August 26, 2013, and amended on October 28, 2015, the trial implementation of commercial factoring was extended to Chongqing Liangjiang New Area, Sunan Modernization Development Demonstration Zone, and the Suzhou Industrial Park.

REGULATIONS RELATING TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

Under the Foreign Exchange Administration Rules of the People's Republic of China, promulgated on January 29, 1996 and last amended on August 5, 2008, and various regulations issued by the State Administration of Foreign Exchange, or SAFE, and other relevant government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments, payment of interest and dividends. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within mainland China must be made in Renminbi. Unless otherwise required by SAFE, Chinese companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of mainland China.

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment, or the SAFE Circular No. 59, promulgated by SAFE on November 19, 2012, that became effective on December 17, 2012 and was further amended on May 4, 2015, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment. SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign-invested entities, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities from Chinese party, and further improved the administration on exchange settlement of foreign exchange capital of foreign-invested entities.

On July 4, 2014, SAFE promulgated the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or the Circular No. 37, effective as of July 4, 2014. Under Circular No. 37, (1) a resident in mainland China must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, or an Overseas SPV, that is directly established or indirectly controlled by the Chinese resident for the purpose of conducting investment or financing; and (2) following the initial registration, the Chinese resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV' s resident shareholder in mainland China, name of the Overseas SPV, term of operation, or any increase or reduction of the contributions by the Chinese resident, share transfer or swap, and merger or division. Additionally, pursuant to the Notice of SAFE on Further Simplifying and Improving the Direct Investment related Foreign Exchange Administration Policies, or SAFE Notice No. 13, which was promulgated on February 13, 2015 and became effective on June 1, 2015, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with SAFE Notice No. 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

The Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises, or Circular 19, was promulgated on March 30, 2015 and became effective on June 1, 2015. According to SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within the scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Notice of the SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts, or SAFE Notice No. 16, was promulgated and became effective on June 9, 2016. According to SAFE Notice No. 16, enterprises registered in mainland China may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in mainland China. SAFE Notice No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within mainland China unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for unrelated enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

In February 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rules, individuals participating in any stock incentive plan of any overseas publicly listed company who are Chinese citizens or foreign citizens who reside in mainland China for a continuous period of not less than one year, subject to a few exceptions are required to register with SAFE or its local branches and complete certain other procedures through a domestic qualified agent, which could be a Chinese subsidiary of such overseas listed company, and complete certain other procedures. The participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the agent in mainland China is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the PRC agent or the overseas entrusted institution or other material changes. The PRC agents must, on behalf of the PRC residents who have the right to exercise the employee share options, apply to SAFE or its local branches for an annual quota for the payment of foreign currencies in connection with the PRC residents' exercise of the employee share options. The foreign exchange proceeds received by the PRC residents from the sale of shares under the stock incentive plans granted and dividends distributed by the overseas listed companies must be remitted into the bank accounts in mainland China opened by the PRC agents before distribution to such PRC residents. Under the Circular of the State Administration of Taxation on Issues Concerning Individual Income Tax in Relation to Equity Incentives promulgated by the SAT and effective from August 24, 2009, listed companies and their domestic organizations shall, according to the individual income tax calculation methods for "wage and salary income" and stock option income, lawfully withhold and pay individual income tax on such income.

REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws regulating the dividend distribution of dividends by foreign-invested enterprises in mainland China is the Company Law of the People's Republic of China, as amended in 2005, 2013 and 2018, and the Foreign Investment Law, which became effective on January 1, 2020. A PRC company is required to set aside as general reserves at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the provisions of laws regarding foreign investment otherwise provided. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

REGULATIONS RELATING TO LOANS BETWEEN FOREIGN COMPANY AND ITS CHINESE SUBSIDIARIES

A loan made by foreign investors as shareholders in a foreign-invested enterprise is considered to be foreign debt in mainland China and is regulated by various laws and regulations, including the Regulation of the People's Republic of China on Foreign Exchange Administration promulgated by the State Council, the Interim Provisions on the Management of Foreign Debts promulgated by SAFE, the NDRC and the Ministry of Finance and executed on March 1, 2003, the Statistical Monitoring of Foreign Debts Tentative Provisions promulgated by SAFE on August 27, 1987, the Detailed Rules for the Implementation of Provisional Regulations on Statistics and Supervision of External Debt effective on January 1, 1998, the Regulations on Foreign Exchange Sale, Purchase and Payment promulgated by PBOC on 1996 and the Administrative Measures for Registration of Foreign Debts promulgated by SAFE on April 28, 2013.

Under these rules and regulations, a shareholder loan in the form of foreign debt made to a Chinese entity does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branches. According to the Law of the People's Republic of China on Enterprise Income Tax, any interest payments, if any, on the loans are subject to a 10% withholding tax unless any such foreign shareholder's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Pursuant to the Interim Provisions of the State Administration for Industry and Commerce on the Ratio of the Registered Capital to the Total Investment of a Sino-Foreign Equity Joint Venture Enterprise, promulgated by SAIC on February 17, 1987, if the amount of foreign exchange debt of a foreign-invested enterprise exceeds its borrowing limits, the enterprise is required to apply to the relevant Chinese regulatory authorities to increase the total investment amount and registered capital to allow the excess foreign exchange debt to be registered with SAFE.

REGULATIONS RELATING TO M&A AND OVERSEAS LISTING

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors, or the M&A Rules, a new regulation with respect to the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and revised on June 22, 2009. Foreign investors should comply with the M&A Rules when they purchase equity interests of a domestic company or subscribe the increased capital of a domestic company, and thus changing the nature of the domestic company into a foreign-invested enterprise; or when the foreign investors establish a foreign-invested enterprise in mainland China, purchase the assets of a domestic company and operate the asset; or when the foreign investors purchase the asset of a domestic company, establish a foreign-invested enterprise by injecting such assets, and operate the assets. The M&A Rules, among other things, purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

The Labor Contract Law

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

According to the Labor Law of the People's Republic of China promulgated on July 5, 1994 and became effective on January 1, 1995 and last amended on December 29, 2018, enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in mainland China. Labor safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide laborers with a safe workplace and sanitation conditions which are in compliance with state stipulations and the relevant articles of labor protection.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury implemented on January 1, 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations implemented on January 1, 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council issued on July 16, 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council promulgated on December 14, 1998, The Unemployment Insurance Measures promulgated on January 22, 1999, the Interim Regulations Concerning the Collection and Payment of Social Insurance Premiums implemented on January 22, 1999 and the Social Insurance Law of the People's Republic of China implemented on December 29, 2018, enterprises are obliged to provide their employees in mainland China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds which was promulgated by the State Council in 1999 and last amended in 2019, enterprises must register at the competent managing center for housing funds and upon the examination by such managing center of housing funds, these enterprises shall complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

REGULATIONS RELATING TO TAX

Enterprise Income Tax

On March 16, 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax which was amended on February 24, 2017 and December 29, 2018. On December 6, 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax of the People's Republic of China, or, collectively, the EIT Law. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in mainland China, or if they have formed permanent establishment institutions or premises in mainland China but there is no actual relationship between the relevant income derived in mainland China and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside mainland China.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as Chinese Tax Resident Enterprises on the Basis of De Facto Management Bodies promulgated by the State Administration of Taxation, or SAT, on April 22, 2009 and amended on January 29, 2014 sets out the standards and procedures for determining whether the "de facto management body" of an enterprise registered outside of mainland China and controlled by PRC enterprises or PRC enterprise groups is located within mainland China.

The EIT Law provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are "non-resident enterprises," and gains derived by such investors, which (a) do not have an establishment or place of business in mainland China or (b) have an establishment or place of business in mainland China, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within mainland China. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our foreign shareholders reside. Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent tax authority in mainland China to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a mainland China resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties, or the Notice No. 81, issued on February 20, 2009 by the SAT, if the relevant Chinese tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such Chinese tax authorities may adjust the preferential tax treatment; and based on the Notice on the Interpretation and Recognition of Beneficial Owners in Tax Treaties, which was issued on October 27, 2009 by the SAT, and the Announcement on the Recognition of Beneficial Owners in Tax Treaties, which was issued on June 29, 2012 by the SAT, conduit companies, which are established for the purpose of evading or reducing tax, or transferring or accumulating profits, shall not be recognized as beneficial owners and thus will not be entitled to the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises, effected on January 1, 2008 and amended on January 29, 2016, the certificate of a high and new technology enterprise is valid for three years.

Value-added Tax

The Provisional Regulations of the People's Republic of China on Value-added Tax were promulgated by the State Council on December 13, 1993 and came into effect on January 1, 1994 which were subsequently amended on November 5, 2008 and came into effect on January 1, 2009 and subsequently amended on February 6, 2016 and November 19, 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (Revised in 2011) were promulgated by the Ministry of Finance and the SAT on December 18, 2008 which were subsequently amended on October 28, 2011 and came into effect on November 1, 2011, or, collectively, the VAT Law. According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of mainland China must pay value-added tax. For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the value-added tax rate is 17%. On April 4, 2018, the Ministry of Finance and the SAT promulgated the Notice on Adjusting Value-added Tax Rate, which reduced the tax rates for sale, import, and export of goods, as well as the deduction rate for taxpayer's purchase of agricultural products.

On March 23, 2016, the Ministry of Finance and the SAT jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform, or the Circular 36, which confirms that business tax would be completely replaced by VAT from May 1, 2016.

Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for the Exemption of Value-added Tax on Cross-border Taxable Activities under the Collection of Value-added Tax in Lieu of Business Tax (for Trial Implementation), which was promulgated on May 6, 2016 by the SAT, provides that if a domestic enterprise provides cross-border taxable services such as technology transfer, technical consulting, software service etc., the above mentioned cross-border taxable services shall be exempt from the value-added tax.

Dividend Withholding Tax

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

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

HONG KONG LAWS AND REGULATIONS RELATING TO OUR BUSINESS

Telecommunications Ordinance

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

Under the Telecommunications (Telecommunications Apparatus) (Exemption from Licensing) Order (Chapter 106Z of the Laws of Hong Kong), a radio dealers license (unrestricted) is not required for importing or exporting telecommunications apparatus meeting prescribed specifications.

A person without the required license is liable, on summary conviction, for a fine of HK$50,000 and imprisonment for two years. A radio dealers license (unrestricted) is generally valid for 12 months, and is renewable on payment of a prescribed fee.

Sale of Goods Ordinance

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

Consumer Goods Safety Ordinance

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

Trade Descriptions Ordinance

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

The Inland Revenue Ordinance

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

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

Section 20 of the IRO was repealed in July 2008 with the enactment of the Inland Revenue (Amendment) No. 6 Ordinance 2018, or the Amendment Bill, which introduced a legislative framework on transfer pricing. The Amendment Bill codified international transfer pricing principles including, amongst others, the arm’s length principle for provision between associated persons, the separate enterprises principle for attributing income or loss of non-Hong Kong resident person, and the three-tier transfer pricing documentation requirements relating to master file, local file and country-by-country report. Based on the Amendment Bill, a person who would have a Hong Kong tax advantage if taxed on the basis of a non-arm’s length provision will instead have their income adjusted upwards or loss adjusted downwards as if an arm’s length provision had been made or imposed instead of the actual provision. This rule applies retrospectively to year of assessment on or after April 1, 2018.

Directors

Our board of directors currently consists of seven directors, comprising three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. The following table sets out the name, age and position of our directors as of the date of this offering memorandum:

Name	Age	Position
Lei Jun	51	Executive Director, Founder, Chairman and Chief Executive Officer
Lin Bin	53	Executive Director, Co-Founder and Vice Chairman
Liu De	47	Executive Director, Co-Founder, Partner, Senior Vice President and Head of Organization Department
Liu Qin	48	Non-Executive Director
Chen Dongsheng	63	Independent Non-Executive Director
Wong Shun Tak	60	Independent Non-Executive Director
Tong Wai Cheung Timothy	67	Independent Non-Executive Director

Executive Directors

Lei Jun (雷軍), aged 51, is an Executive Director, the Founder, Chairman and Chief Executive Officer of the Company. He is also a member of the Remuneration Committee. Lei Jun is responsible for the Company's overall corporate strategy, company culture and key products. He oversees the senior management team. Lei Jun currently holds directorships in various members of the Group.

Lei Jun is a renowned angel investor in mainland China. Lei Jun joined Kingsoft Corporation Limited (SEHK Stock Code: 3888) in 1992 and has held various senior positions in Kingsoft, including as the chairman of the board since July 2011, non-executive director since August 2008 and the chief executive officer between 1998 and December 2007. From July 2011 to March 2018, Lei Jun was the chairman of Cheetah Mobile Inc. (NYSE ticker: CMCM). From July 2011 to August 2016, Lei Jun was the chairman of JOYY Inc. (NASDAQ ticker: YY). From December 2011, Lei Jun has served as a director of Beijing Kingsoft Office Software, Inc. (Sci-Tech Innovation Board of the Shanghai Stock Exchange ticker: 688111). From April 2015, Lei Jun has been the chairman of the board of Kingsoft Cloud Holdings Limited (NASDAQ ticker: KC).

Lei Jun received a Bachelor's degree in Computer Science from Wuhan University (武漢大學) on July 1, 1991. He has been a member of the board of Wuhan University since November 2003.

Lei Jun was elected as one of the 2017 Top 10 Economic Personages of China, and one of 100 outstanding private entrepreneurs at the 40th anniversary of the China's reform and opening-up. In 2020, Lei Jun was honored with the title of "National Advanced Individual of Private Economy Fighting against COVID-19" and the title of "Beijing Model Worker."

Lin Bin (林斌), aged 53, is an Executive Director, a Co-Founder and Vice Chairman. He is also a member of the Nomination Committee. Lin Bin currently holds directorships in various members of the Group.

Lin Bin co-founded Xiaomi with Lei Jun in 2010. He served as President of Xiaomi until 2019 when he took on the role of Vice Chairman. During the early phase of Xiaomi's development. Bin was responsible for HR recruiting, legal and finance operation, strategic partnerships with key suppliers, and overseas market expansion in countries like India, Indonesia, etc. As the company grew, Bin also oversaw the company's domestic sales and marketing, after-sales services operations, and Xiaomi's smartphone business.

Lin Bin had served as an Engineering Director at Google Inc. between 2006 and 2010. Before this, he had worked at Microsoft Corporation from 1995 to 2006 and served various roles such as Software Design Engineer (SDE), SDE Lead, SDE Manager, and Engineering Director. Prior to this, Lin Bin worked as a Network Engineer at ADP Inc. since May 1993.

Lin Bin has held numerous visiting and adjunct professorships, including visiting professor at Zhejiang University (浙江大學) in 2002, visiting professor at Tongji University (同濟大學) in 2002, adjunct professor at Nankai University (南開大學) from 2002 to 2005 and adjunct professor at Sun Yat-sen University (中山大學) from 2005 to 2008. He currently sits on the Board of Advisors of the Tufts University School of Engineering.

Lin Bin received a Bachelor of Science in Radio Electronics from Sun Yat-sen University (中山大學) in July 1990, and a Master of Science from Drexel University in June 1992.

Liu De (劉德), aged 47, is an Executive Director, a Co-Founder, Partner, Senior Vice President and Head of Organization Department, is currently responsible for the recruitment, promotion, training and evaluation of the middle and senior management of the Group, as well as the organizational structure design and approval procedures of each department. Mr. Liu is a director of various members of the Group. Mr. Liu is also a director of Ninebot Limited (Shanghai Stock Exchange Stock Code: 689009), Viomi Technology Co., Ltd. (NASDAQ ticker: VIOT) and Zepp Health Corporation (NYSE ticker: ZEPP). In October 2002, Liu De co-founded Beijing Xinfengrui Industrial Design Co., Ltd. (北京新鋒銳工業設計公司) and served as its executive director until 2007.

Liu De received a Bachelor's degree in Industrial Design in July 1996 and a Master's degree in Mechanical Design and Theory in March 2001, both from the Beijing Institute of Technology (北京理工大學), Liu De received a Master's degree in Industrial Design from Art Center College of Design, Pasadena, California, US, in April 2010.

Non-Executive Director

Liu Qin (劉芹), former name: Liu Ya (劉雅), aged 48, is a Non-Executive Director and a member of the Audit Committee. Liu Qin became a Director of the Company in May 2010, and he currently holds directorships in various members of the Group. Liu Qin co-founded and has served as managing director of 5Y Capital (formerly known as Morningside Venture Capital) since June 2007. The funds under 5Y Capital's management had been the earliest investors of the Group. Before co-founding 5Y Capital, Liu Qin served various roles including as a business development director for investment at Morningside IT Management Services (Shanghai) Co. Ltd. (晨興信息科技諮詢(上海)有限公司) from July 2000 to November 2008. From September 2005 to April 2020, Liu Qin served as a director of Xunlei Limited (NASDAQ ticker: XNET). Since June 2008, Liu Qin has been a director of JOYY Inc. (NASDAQ ticker: YY). Since December 2014, Liu Qin has been a director of Agora, Inc. (NASDAQ ticker: API). Liu Qin has also served as a director of XPeng Inc. (NYSE ticker: XPEV) since February 2018 and was determined by the board of directors to be an independent director of XPeng Inc. in August 2020.

Liu Qin received a Bachelor's degree in Industrial Electrical Automation from University of Science and Technology Beijing (北京科技大學) in July 1993, and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) on April 22, 2000.

Independent Non-Executive Directors

Chen Dongsheng (陳東升), aged 63, has served as an Independent Non-Executive Director since June 2018. He also currently serves as the chairman of both the Remuneration Committee and the Corporate Governance Committee, and a member of the Audit Committee. Chen Dongsheng has served as the chairman of Taikang Insurance Group Inc. (泰康保險集團股份有限公司) (formerly known as Taikang Life Insurance Co., Ltd (泰康人壽保險股份有限公司)) ("Taikang") since July 1996. He is currently the chief executive officer of Taikang and holds various directorships within the Taikang group. Prior to this, Chen Dongsheng served as the chairman and the general manager of China Guardian Auctions Co., Ltd (中國嘉德國際拍賣有限公司) from May 1993. Prior to this, Chen Dongsheng worked as the deputy editor of the Management World (monthly), published by the Development Research Center of the State Council of China.

Chen Dongsheng has accumulated extensive corporate governance experience during his leadership in the Taikang group, as he oversaw the reform and optimization of the group's corporate governance structure.

Key corporate governance initiatives implemented during Chen Dongsheng's tenure include (i) formalizing the structure, functions and accountability of the corporate governance bodies within the Taikang group, (ii) introducing board executive, audit, nomination and remuneration committees, the members of which are selected by election, and (iii) appointing independent directors.

Chen Dongsheng received a Bachelor's degree in Political Economics on July 30, 1983, and a PhD in Political Economics on June 30, 1996, both from Wuhan University (武漢大學).

Wong Shun Tak (王舜德), aged 60, currently serves as an Independent Non-Executive Director, the chairman of the Audit Committee, and a member of the Remuneration Committee, Corporate Governance Committee and Nomination Committee. In 2014, Wong Shun Tak co-founded and had concurrently served as the chief financial officer of Rokid Corporation Ltd. Wong Shun Tak has served as the independent non-executive director, chairman of the Nomination Committee, chairman of the Remuneration Committee and member of the Audit Committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) since July 2014. Wong Shun Tak served as an executive director and chief financial officer of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from October 2011 to July 2012, and also acted as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from April 2007 to September 2011. Wong Shun Tak has served as an Independent Non-Executive Director and the chairman of the Audit Committee of the Company since June 2018. Mr. Wong is currently an independent non-executive director of Airstar Bank Limited, a subsidiary of the Company.

Wong Shun Tak served as vice president of finance and financial controller of Alibaba Group Holding Ltd (NYSE ticker: BABA; SEHK Stock Code: 9988) from August 2007 to September 2011. During his service with Alibaba Group, he also acted as the chairman of Group Financial Control Committee of Alibaba Group.

Wong Shun Tak served as the chief financial officer of Goodbaby Children Products Group ("Goodbaby") from August 2003 to August 2007, a leading juvenile product manufacturer in China. Before joining Goodbaby, Wong Shun Tak worked as the vice president of finance in IDT International Limited (SEHK Stock Code: 167) from September 2001 to July 2003.

In the past, Wong Shun Tak held key financial management positions in various multi-nationals companies, including as the financial controller of AMF Bowling, Inc. from November 1996 to March 1998 and International Distillers China Ltd. from December 1993 to October 1996. Wong Shun Tak has extensive experience in financial control, operations, strategic planning and implementation, private fund investments and exit strategies.

Wong Shun Tak received a Master's degree in Finance from the University of Lancaster in the United Kingdom and a Master's degree in Accounting from Charles Stuart University in Australia. He is also a fellow CPA member of the Hong Kong Institute of Certified Public Accountants and a fellow CPA member of Australian Society of CPAs.

Professor Tong Wai Cheung Timothy (唐偉章) ("**Prof. Tong**"), aged 67, is an Independent Non-Executive Director, the chairman of the Nomination Committee and a member of the Corporate Governance Committee. He joined the Group in August 2019.

Prof. Tong received a Bachelor's degree in Mechanical Engineering from Oregon State University, and a Master of Science and PhD degree in the same discipline from the University of California at Berkeley. Prof. Tong serves as the chairman of the Council, Hong Kong Laureate Forum, and the chairman of the Citizens Advisory Committee on Community Relations of the Independent Commission Against Corruption (ICAC). He also serves as a member of the Advisory Committee on Corruption of the ICAC and the InnoHK Steering Committee. Additionally, he has been appointed a Non-official Justice of the Peace and a member of the Chinese People's Political Consultative Conference since 2010 and 2013, respectively. Prof. Tong has over 30 years of teaching, research and administrative experience in universities in the United States and Hong Kong. Prior to taking the office as president of The Hong Kong Polytechnic University from 2009 to 2018, he was a professor and dean of the School of Engineering and Applied Science at The George Washington University. Prof. Tong has served as chief executive officer of AMTD Foundation since July 2019 and as a director of China Association (H.K.) for Science and Society, Ltd. since 2020. He is a fellow of the American Society of Mechanical Engineers, the Hong Kong Academy of Engineering Sciences ("HKAES") and the International Thermal Conductivity Conference. He served as the president of HKAES in 2018.

Prof. Tong is currently an independent non-executive director of Airstar Bank Limited, a subsidiary of the Company. He is also an independent non-executive director of Gold Peak Industries (Holdings) Limited (SEHK Stock Code: 40), a non-executive director of Freetech Road Recycling Technology (Holdings) Limited (SEHK Stock Code: 6888), an independent non-executive director of GP Industries Limited (SGX Stock Code: G20), and chairman of the board of directors and independent director of AMTD Digital Inc.

Senior Management (Non-Directors)

Chang Cheng (常程), aged 50, is a Vice President and is responsible for the Group's smartphone product planning. Prior to joining the Group in January 2020, Chang Cheng served as vice president of Lenovo Group Limited (SEHK Stock Code: 992) since July 2011.

Chang Cheng received a Bachelor's degree in Mathematics from Beijing Normal University (北京師範大學) in July 1993 and a PhD in Engineering from Beihang University (previously known as Beijing University of Aeronautics and Astronautics) (北京航空航天大學) in July 2000.

Dr. Cui Baoqiu (崔寶秋), aged 52, is a Vice President and the President of Qinghe University. He has over 20 years of experience in software and Internet development and management. Prior to his current roles, Dr. Cui was the Chairman of Xiaomi's Technical Committee and Vice President and Chief Architect of the AI and Cloud Platform, a team which he founded and led for over six years. Prior to joining the Group in June 2012, Dr. Cui was Principal Engineer of LinkedIn from 2010 to 2012. From 2006 to 2010, Dr. Cui worked as Principal Engineer on the Yahoo Search Technology team. From 2000 to 2006, Dr. Cui was a Senior Engineer and Senior R&D Manager at IBM.

Dr. Cui obtained a PhD degree in Computer Science from the State University of New York at Stony Brook in 2000. He received Master's and Bachelor's degrees in Computer Science from Wuhan University in 1994 and 1991, respectively.

Gao Zi Guang (高自光), aged 39, is a Vice President and is responsible for new retail business of China Region. Prior to joining the Group in February 2014, Gao Zi Guang worked at Tencent Holdings Ltd. (SEHK Stock Code: 700) for 10 years, rising from basic engineer to T4 technical expert. He has rich experience in internet business, and has participated in and been in charge of QQ, SOSO, Tencent Microblog, Micro-Video and other products.

Gao Zi Guang received a Bachelor's degree in Computer Science and Technology from Xi'An Jiaotong University (西安交通大學) and a Master of Business Administration from Tsinghua University (清華大學).

He Yong (何勇), aged 48, is a Vice President and is responsible for the Group's regional strategic development, regional headquarters management, campus construction and engineering management. Prior to joining the Group in September 2018, He Yong served as deputy director of the Hubei Provincial Government Office in Beijing since February 2017, and has a wealth of management experience in government relationship, public affairs, regional strategic planning, major project organization and other related areas.

He Yong received a PhD in Economics from Wuhan University (武漢大學) in December 2018.

Hong Feng (洪鋒), aged 44, is a Co-Founder and a Senior Vice President. He is currently the Chairman and Chief Executive Officer of Airstar Digital Technology, responsible for the development of finance businesses of the Group. Prior to joining the Group in December 2010, Hong Feng worked at Google Inc. from May 2005 to December 2010, where his responsibilities included product and engineering management. From May 2001 to May 2005, Hong Feng worked at Siebel Systems (which was subsequently acquired by Oracle America, Inc.) as lead software engineer.

Hong Feng received a Bachelor's degree in Computer and Applications from Shanghai Jiao Tong University (上海交通大學) in July 1999, and a Master of Science from Purdue University in May 2001.

Jain Manu Kumar, aged 40, is a Vice President and the President of Xiaomi India, responsible for the Group's business in India. Jain Manu Kumar joined the Group in May 2014 and led Xiaomi's business in India. Prior to January 2014, he had co-founded e-commerce company Jabong.com. Between June 2007 and December 2011, he worked at McKinsey & Company as an Engagement manager.

Jain Manu Kumar received a Bachelor's degree in Mechanical Engineering from Indian Institute of Technology (IIT), Delhi, in 2003 and a Post Graduate Diploma in Management and Master of Business Administration from Indian Institute of Management (IIM), Calcutta in 2007.

Lam Sai Wai Alain (林世偉), aged 47, is a Vice President and the Chief Financial Officer of the Group, the Deputy Chairman of Airstar Digital Technology and Chairman of Airstar Bank. Prior to joining the Group in October 2020, Lam Sai Wai Alain served as a Managing Director and Head of Technology, Media and Telecom in the Investment Banking and Capital Markets department of Credit Suisse between January 2016 and October 2020. Between July 1997 and December 2015, Lam Sai Wai Alain worked at Morgan Stanley in various locations including London, New York, Menlo Park and Hong Kong.

Lam Sai Wai Alain received a Master's degree in Engineering from the University of Oxford.

Lu Weibing (盧偉冰), aged 45, is a Partner, Senior Vice President, the President of China Region, the President of International Department and the General Manager of Redmi. He is responsible for sales management of the China Region and International Department, and the brand strategy, product planning, production, sales and marketing of Redmi. Before joining the Group in January 2019, Lu Weibing served as the chairman and president of Shenzhen Chenyee Technology Co., Ltd. (深圳市誠壹科技有限公司) from June 2017 to December 2018. From April 2010 to June 2017, Lu Weibing served as president at Shenzhen Gionee Communication Equipment Co., Ltd. (深圳市金立通信設備有限公司). Before this, Lu Weibing worked as general manager of the overseas department at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) from January 2008 to March 2010. Lu Weibing worked as general sales manager at KONKA Communication Co., Ltd. (康佳通信科技有限公司) from July 1998 to December 2007.

Lu Weibing received a Bachelor of Science in Chemistry from Tsinghua University (清華大學) in 1998 and an Executive Master of Business Administration from Cheung Kong Graduate School of Business (長江商學院) in 2009.

Shang Jin (尚進), aged 45, is a Vice President, deputy minister of the Group Organization Department and Political Commissar of China Region, currently responsible for the General Management Department and Branch Frontline Operations of China Region. Before joining the Group in September 2014, Shang Jin co-founded and served as the chief executive officer of Beijing Kylin Culture Co., Ltd. (北京麒麟網文化股份有限公司) (formerly known as Beijing Kylin Information Technology Co, Ltd. (北京麒麟網資訊科技有限公司)) between July 2007 and February 2014. Before this, Shang Jin served as vice general manager of Beijing AmazGame Age Internet Technology Co., Ltd. (北京暢遊天下網絡技術有限公司) (subsequently listed as part of the group of Changyou.com Limited, NASDAQ ticker: CYOU) since February 2005. From November 1999 to February 2005, Shang Jin worked at Kingsoft, including as project manager, technology officer and division deputy manager.

Shang Jin has served as a director of Ourpalm Co., Ltd (北京掌趣科技股份有限公司) (Shenzhen Stock Exchange Stock Code: 300315) since February 2018.

In 2010, Shang Jin was awarded Zhongguancun's leading talent and was named one of the top 10 most influential leaders in the gaming industry of the year in 2011. Shang Jin received a Bachelor's degree in Physics from Dalian University of Technology (大連理工) in July 1998.

Wang Chuan (王川), aged 52, is a Co-Founder, Senior Vice President and Chief Strategy Officer of the Company. He is responsible for assisting the Chief Executive Officer of the Company in the management and overall planning of the Quality Committee, Technical Committee and Procurement Committee of the Group. Wang Chuan founded Beijing Leishitiandi Electron Technology Co., Ltd. (北京雷石天地電子技術有限公司) in June 2006 and served as the chairman. He has served as a director of iQIYI, Inc. (NASDAQ ticker: IQ) since November 2014.

Wang Chuan received a Bachelor's degree in Computer Science and Engineering from Beijing University of Technology (北京工業大學) in July 1993.

Wang Xiang (王翔), aged 60, as a Partner and the President of the Group, assists the Chief Executive Officer with Group operations. Wang Xiang joined the Group in July 2015 and served as Senior Vice President of the Group, President of International Department, responsible for global expansion, IP strategy, and strategic partnership management. He became the President of the Group in November 2019.

Wang Xiang has more than 30 years of experience in the semiconductor and communications fields. Wang Xiang previously served as Senior Vice President of Qualcomm and President of Qualcomm Greater China, leading Qualcomm's business and operations in Greater China. Prior to that role, Wang Xiang was Vice President of Qualcomm CDMA Technology, responsible for Qualcomm chipset business and customer services in China. Before joining Qualcomm, he held key positions in sales and marketing of world leading companies, including Motorola Inc., Lucent Technologies, Inc. and Agere Systems Inc.

Wang Xiang received a Bachelor's degree in Electronic Engineering from Beijing University of Technology (北京工業大學) in July 1984.

Yan Kesheng (顏克勝), aged 51, is a Vice President and the Chairman of the Quality Committee, and General Manager of the Smart Manufacturing Department. He is responsible for quality control of all products and services and system-level solutions for smart manufacturing. Before joining the Group in October 2010, Yan Kesheng was a senior mechanical design manager at Star Shine Tech Co., Ltd. (星耀無線科技有限公司) from October 2008 to October 2010. From October 2002 to October 2008, Yan Kesheng worked as the chief structural design engineer and project leader at Motorola Technology Co., Ltd. (摩托羅拉科技有限公司). Before this, Yan Kesheng worked as a senior mechanical engineer and design team leader at Vtech Telecommunications Limited (偉易達通訊設備有限公司) from December 1998 to October 2002 and as the chief engineer at Hubei Yichang Nanyuan Vehicle Manufacturing Co., Ltd. (湖北宜昌南苑車輛製造有限公司) from July 1992 to November 1998.

Yan Kesheng received a Bachelor's degree in Agricultural Machinery Manufacturing and Repair from Hefei University of Technology (合肥工業大學) (formerly known as Anhui Institute of Technology (安徽工學院)) in July 1992.

Zeng Xuezhong (曾學忠), aged 46, is a Senior Vice President and President of the Smartphone Department, responsible for the research and development and manufacturing of smartphones. He joined the Group in July 2020. Zeng Xuezhong served as senior vice president and president of ZTE Corporation (中興通訊) (SEHK Stock Code: 763; SZSE Stock Code: 000063) in mainland China, executive vice president of ZTE Corporation and chief executive officer of ZTE Terminal. He also held senior management positions such as global executive vice president of Tsinghua Unigroup (紫光集團有限公司), and chairman and general manager of Hatchip Communications (匯芯通信技術有限公司). As an excellent manager and expert in communications industry, he has rich practical experience in corporate strategy, innovation and transformation.

Zeng Xuezhong received a Bachelor's degree in Physics and an Executive Master of Business Administration from Tsinghua University (清華大學).

Zhang Feng (張峰), aged 51, is a Partner, a Senior Vice President, Group Chief of Staff, the Chairman of the Group Procurement Committee and the General Manager of the Laptop Department, and responsible for the TV Department and Large Appliance Department. Zhang Feng has more than 20 years of experience in the smartphone and telecommunications industry. Prior to joining the Group in September 2016, Zhang Feng founded Jiangsu Zimi Electronic Technology Co., Ltd. (江蘇紫米電子技術有限公司). He held various positions in the Inventec group between September 1993 and February 2012, including as the director of research and development and the general manager of the Inventec group's Nanjing branch.

Zhang Feng received a Bachelor's degree in Radio Electronics from Shanghai University of Science and Technology (上海科學技術大學) (now known as Shanghai University (上海大學)) in July 1991.

Share Option Schemes

The Company has adopted two share options schemes, namely the Pre-IPO ESOP and the Post-IPO Share Option Scheme. Each of two subsidiaries of the Company, Xiaomi Finance and Pinecone International Limited, has adopted two share options schemes, respectively, which are XMF Share Option Scheme I, XMF Share Option Scheme II, Pinecone Share Option Scheme I and Pinecone Share Option Scheme II.

Pre-IPO ESOP

The Pre-IPO ESOP was adopted by the Company on May 5, 2011, superseded on August 24, 2012. The eligible participants include employees, consultants, all members of the Board, and other individuals, as determined, authorized and approved by the board of the Company or a committee authorized by the board of the Company. The term of the Pre-IPO ESOP commenced on August 24, 2012 and will expire on the tenth anniversary of the above starting date. No further option could be granted under the Pre-IPO ESOP after the Listing.

Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted by the Company on June 17, 2018. The eligible participants include any employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Board determines. The Post-IPO Share Option Scheme shall be valid and effective for the period of ten years commencing on the listing date of our initial public offering. The total number of Class B Shares available for grant under the Post-IPO Share Option Scheme is 1,344,594,311 Class B Shares.

XMF Share Option Scheme I

The XMF Share Option Scheme I was adopted by the shareholders of Xiaomi Finance on June 17, 2018. It will remain in force from June 17, 2018 until July 9, 2018. The eligible participants include any directors and employees of any member of Xiaomi Finance Group (including nominees and/or trustees of any employee benefit trusts established for them) or any associates as the board of directors of Xiaomi Finance, or XMF board, determines. The overall limit on the number of ordinary share(s) in the share capital of Xiaomi Finance, or XMF Shares, that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme I at any time shall not exceed 42,070,000 XMF Shares.

XMF Share Option Scheme II

The XMF Share Option Scheme II was approved by the shareholders of Xiaomi Finance on June 17, 2018. It will remain valid and effective for the period of 10 years starting from the listing date of our initial public offering. The eligible participants include any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Xiaomi Finance Group or any of the Xiaomi Finance Group's affiliates as the XMF board or its delegates determines. The maximum number of XMF Shares represented by the options to be issued under the XMF Share Option Scheme II shall be 150,000,000 XMF Shares.

The Pinecone Share Option Scheme I

The Pinecone Share Option Scheme I was adopted pursuant to the written resolutions of the shareholders of Pinecone International passed on July 30, 2015. The scheme will expire on the tenth anniversary of the date above. The eligible participants include any officer (whether or not a director) or employee, any director of Pinecone Group, or any individual consultant or advisor who renders or has rendered bona fide services (with certain exceptions) to Pinecone International and its subsidiaries as one or more committees appointed by the board of directors of Pinecone International, or Pinecone Board, determine.

The Pinecone Share Option Scheme II

The Pinecone Share Option Scheme II was adopted pursuant to the written resolutions of the shareholders of Pinecone International on June 17, 2018. The scheme shall be valid and effective for the period of 10 years commencing July 9, 2018. The eligible participants include any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Pinecone Group or any affiliate as the Pinecone Board or its delegates determine. The overall limit on the number of Pinecone Ordinary Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pinecone Share Option Scheme II and any other schemes at any time must not exceed 48% of the Pinecone Ordinary Shares in issue from time to time.

Share Award Scheme

The Company adopted the Share Award Scheme on June 17, 2018. The eligible participants include any individual, being an employee, director (including executive directors, non-executive directors and independent non-executive directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Board determines. The aggregate number of Class B Shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 Ordinary Shares without shareholders' approval subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

SUBSTANTIAL SHAREHOLDERS AND DIRECTORS' INTERESTS

Substantial Shareholders' Interests

As of the date of this offering memorandum, to the knowledge of the Company, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong), or SFO, or who was, directly or indirectly, interested in 5% or more of the shares of the Company:

Long/short position in the shares of the Company

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
Class A Shares			
Smart Mobile Holdings Limited[2]	Interest in controlled corporations	4,194,403,900	90.06%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	4,194,403,900	90.06%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	4,194,403,900	90.06%
ARK Trust (Hong Kong) Limited[2]	Beneficial owner	4,194,403,900	90.06%
Apex Star LLC[3]	Interest in controlled corporations	462,890,213	9.94%
Bin Lin 2021 A Trust[3]....	Beneficial owner	462,890,213	9.94%
Class B Shares			
Smart Mobile Holdings Limited[2]	Interest in controlled corporations	2,324,668,570	11.39%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	2,383,890,200	11.68%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	2,383,890,200	11.68%
ARK Trust (Hong Kong) Limited[2]	Beneficial owner	2,476,135,242	12.13%
Apex Star LLC[3]	Interest in controlled corporations	1,752,557,602	8.59%
Bin Lin 2021 Trust[3]	Beneficial owner	1,752,557,602	8.59%

Notes:

(1) The calculation is based on the total number of relevant class of Ordinary Shares in issue as of the date of this offering memorandum.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in (i) the 4,194,403,900 Class A Shares and the 2,324,668,570 Class B Shares held by Smart Mobile Holdings Limited; (ii) the 59,221,630 Class B Shares held by Smart Player Limited and (iii) 92,245,042 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 2,476,135,242 Class B shares held by the trusts.

(3) Apex Star LLC is controlled by Bin Lin 2021 A Trust and Bin Lin 2021 Trust with Lin Bin as settlor. Accordingly, Lin Bin is deemed to be interested in the 462,890,213 Class A Shares and 1,752,557,602 Class B Shares held by Apex Star LLC.

Directors' Interests

As of the date of this offering memorandum, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and SEHK pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken, or are deemed to have taken, under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register required to be kept by the Company; or (c) were required, pursuant to the Model Code for Securities Transactions by directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to be notified to the Company and SEHK were as follows:

(A) *Interest in the shares and underlying shares of the Company*

Name of Director or chief executive	Nature of interest	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares[1]
Lei Jun[2]	Beneficiary, founder and settlor of a Trust(L)[6]	ARK Trust (Hong Kong) Limited	4,194,403,900 Class A Shares	90.06%
			2,476,135,242 Class B Shares	12.13%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	4,194,403,900 Class A Shares	90.06%
			2,324,668,570 Class B Shares	11.39%
	Interest in controlled corporations(L)	Smart Player Limited	59,221,630 Class B Shares	0.29%
	Interest in controlled corporations(L)	Team Guide Limited	92,245,042 Class B Shares	0.45%
Lin Bin[3]	Trustee and settlor of a Trust(L) Beneficial owner(L)	Bin Lin 2021 A Trust	462,890,213 Class A Shares	9.94%
	Trustee and settlor of a Trust(L) Beneficial owner(L)	Bin Lin 2021 Trust	1,752,557,602 Class B Shares	8.59%
	Trustee and settlor of a Trust(L) Beneficial owner(L)	Bin Lin Family Trust	93,438,272 Class B Shares	0.46%
	Interest in controlled corporations(L)	Apex Star LLC	462,890,213 Class A Shares	9.94%
			1,752,557,602 Class B Shares	8.59%
	Interest in controlled corporations(L)	Apex Star FT LLC	93,438,272 Class B Shares	0.46%
	Interest in controlled corporations(L)	Bin Lin and Daisy Liu Family Foundation	60,686,600 Class B Shares	0.30%

Name of Director or chief executive	Nature of interest	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares(1)
Liu De(4)	Founder, and settlor of a Trust(L) Beneficial owner(L)	YYL Family Trust	135,871,935 Class B Shares	0.67%
	Interest in controlled corporations(L)	Lofty Power International Limited	135,871,935 Class B Shares	0.67%
Liu Qin(5)	Interest in controlled corporations(L)	Morningside China TMT Fund I, L.P.	163,939,174 Class B Shares	0.80%
	Interest in controlled corporations(L)	Morningside China TMT Fund II, L.P.	20,527,199 Class B Shares	0.10%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of the date of this offering memorandum.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,194,403,900 Class A Shares and the 2,324,668,570 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO.

(3) Apex Star FT LLC is controlled by Bin Lin Family Trust. Accordingly, Lin Bin, as the trustee of Bin Lin Family Trust, is deemed to be interested in 93,438,272 Class B Shares held by Apex Star FT LLC under the SFO. Apex Star LLC is controlled by Bin Lin 2021 A Trust and Bin Lin 2021 Trust. Accordingly, Lin Bin, as the trustee of Bin Lin 2021 A Trust and Bin Lin 2021 Trust, is deemed to be interested in 462,890,213 Class A Shares and 1,752,557,602 Class B Shares held by Apex Star LLC. Bin Lin and Daisy Liu Family Foundation are controlled by Lin Bin. Accordingly, Lin Bin is deemed to be interested in 60,686,600 Class B Shares held by Bin Lin and Daisy Liu Family Foundation.

(4) Lofty Power International Limited is controlled by YYL Family Trust. Accordingly, Liu De, as the trustee of YYL Family Trust, is deemed to be interested in 135,871,935 Class B Shares held by Lofty Power International Limited.

(5) Liu Qin is entitled to exercise or control the exercise of one-third of the voting power at general meetings of TMT General Partner Ltd. and is therefore deemed to be interested in the Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P., which respectively controls Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P. (the "5Y Capital Funds"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the 5Y Capital Funds have an interest.

(6) The letter "L" denotes the person's long position in the shares.

(B) *Interest in the shares of associated corporations of the Company*

Name of director or chief executive	Nature of interest	Associated corporations	Approximate percentage of shareholding(1)
Lei Jun	Beneficial owner	Xiaomi Finance(2)	42.07%
	Interest in controlled corporations(L)	Parkway Global Holdings Limited(3)	100%
	Interest in controlled corporations(L)	Sunrise Vision Holdings Limited(3)	100%

Name of director or chief executive	Nature of interest	Associated corporations	Approximate percentage of shareholding[(1)]
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited[(3)]	100%

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of the date of this offering memorandum.

(2) Xiaomi Finance is a subsidiary of the Company and therefore Xiaomi Finance is an associated corporation of the Company. Lei Jun is entitled to receive up to 42,070,000 shares in Xiaomi Finance pursuant to options granted to him under the XMF Share Option Scheme I (subject to the relevant vesting conditions).

(3) Smart Mobile Holdings Limited, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited, and is deemed to be interested in the 4,194,403,900 Class A Shares and 2,324,668,570 Class B Shares held by Smart Mobile Holdings Limited under the SFO. Therefore, Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited and Parkway Global Holdings Limited are associated corporations of the Company.

Save as disclosed above, none of the directors or chief executive of the Company and their associates, had interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations as of the date of this offering memorandum.

CONTINUING CONNECTED TRANSACTIONS

The following discussion describes certain continuing connected transactions between the Group and its subsidiaries, VIEs, associated companies, key management and other related parties. The continuing connected transactions were carried out in the normal course of business and at terms negotiated.

Contractual Arrangements

Mainland China's laws and regulations currently prohibit or restrict foreign ownership and investment in a variety of businesses in mainland China in which we operate, including, but not limited to, online culture business, Internet audio-visual program service business, cloud storage service and other value-added telecommunication service business and resales of mobile communication products. As a result, we operate the relevant businesses through a number of VIEs and their subsidiaries based on a series of contractual arrangements that we, through our WFOEs, entered into with the VIEs and their subsidiaries and the VIEs' shareholders. Pursuant to these contractual arrangements, we obtained effective control over and had the right to receive all economic benefits from the business and operations of the VIEs and their subsidiaries. For information on the risks relating to the contractual arrangements, see "Risk Factors – Risks Relating to Our Corporate Structure."

The contractual arrangements primarily include the following:

Exclusive Business Cooperation Agreements, pursuant to which the VIEs agreed to engage our WFOEs as their exclusive provider of technical support, consultation and various other services and to provide service fees consisting of their total consolidated profits to the WFOEs in return subject to certain customary adjustments;

Exclusive Option Agreements, pursuant to which the WFOEs have the rights to require the VIEs' shareholders to transfer their equity interests in the VIEs to the WFOEs and/or designated third party in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the VIEs' shareholders (or part of the loan amounts in proportion to the equity interests being transferred) or for a nominal price, unless otherwise required by relevant authorities;

Equity Pledge Agreements, pursuant to which the VIEs' shareholders agreed to pledge all their respective equity interests in the VIEs to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts. The pledge in respect of the VIEs takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the VIEs' shareholders and the VIEs under the relevant contractual arrangements have been fully performed and all the outstanding debts of them under the relevant contractual arrangements have been fully paid;

Powers of Attorney, pursuant to which the VIEs' shareholders irrevocably appointed the WFOEs and their designated persons as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the VIEs; and

Loan Agreements, pursuant to which the relevant WFOEs agreed to provide loans to certain VIEs' shareholders to be exclusively used as investment in the relevant VIEs.

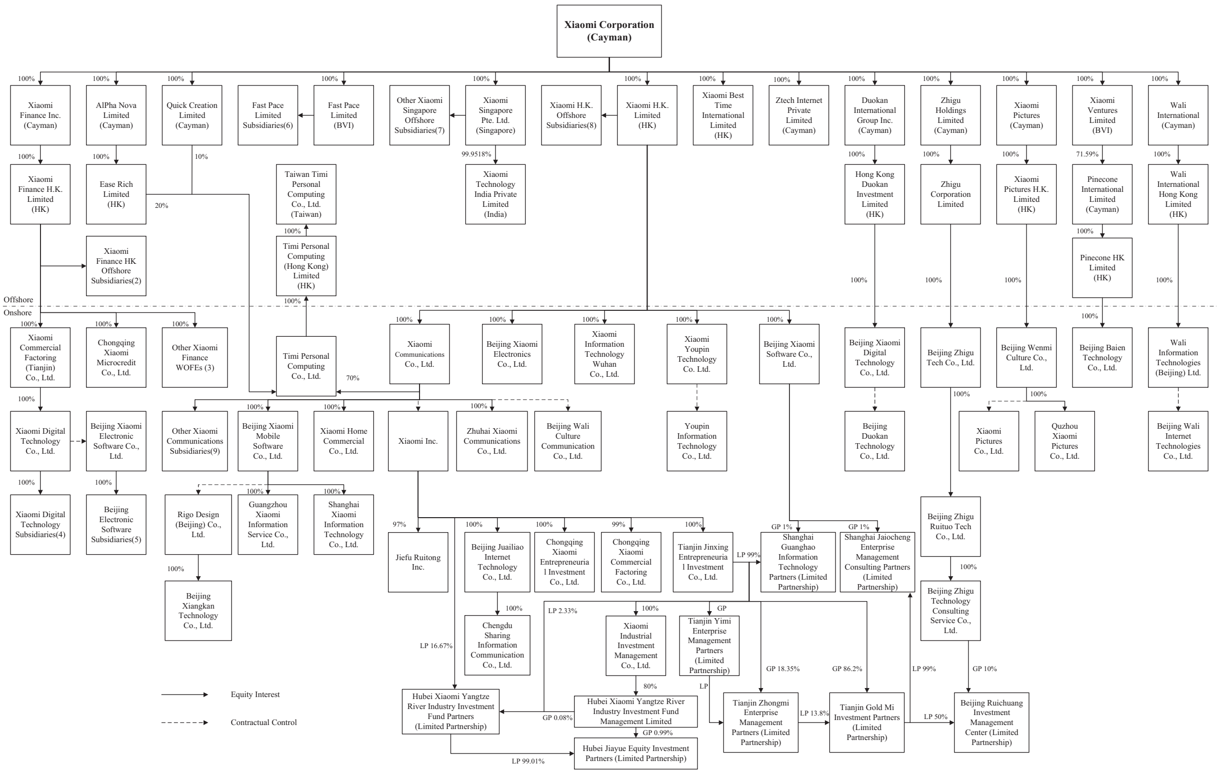
The 2020 XMF Framework Agreement

On December 30, 2020, we and our wholly-owned subsidiary, Xiaomi Finance, agreed to renew the framework agreement entered into between the Company and Xiaomi Finance on June 18, 2018 (the "2018 XMF Framework Agreement") by entering into a framework agreement (the "2020 XMF Framework Agreement") in relation to the provision to each other, or by one to the other, of (i) supply of products; (ii) data sharing and collaboration; (iii) intellectual property licensing; (iv) payment and settlement services; (v) marketing services; (vi) comprehensive support services; and (vii) financial services.

The 2020 XMF Framework Agreement is for a term of three years from January 1, 2021 to December 31, 2023 (both days inclusive).

CORPORATE STRUCTURE

The following chart illustrates the structure of the Group as of March 31, 2021.



Notes:

(1) In the above corporate chart, references to:

(i) "Xiaomi Finance HK" are to Xiaomi Finance H.K. Limited, a limited liability company incorporated under the laws of Hong Kong and our indirect wholly-owned subsidiary;

(ii) "Tianjin Commercial Factoring" are to Xiaomi Commercial Factoring (Tianjin) Co., Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(iii) "Chongqing Microcredit" are to Chongqing Xiaomi Microcredit Co., Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(iv) "Beijing Electronic Software" are to Beijing Xiaomi Electronic Software Co., Ltd., a limited liability company established under the laws of mainland China and our VIE;

(v) "Xiaomi Communications" are to Xiaomi Communications Co., Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(vi) "Xiaomi Youpin Technology" are to Xiaomi Youpin Technology Co. Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(vii) "Youpin Information Technology" are to Youpin Information Technology Co., Ltd., a limited liability company established under the laws of mainland China and our VIE;

(viii) "Beijing Wali Culture" are to Beijing Wali Culture Communication Co., Ltd., a limited liability company established under the laws of mainland China and our VIE;

(ix) "Xiaomi Mobile Software" are to Beijing Xiaomi Mobile Software Co., Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(x) "Beijing Digital Technology" are to Beijing Xiaomi Digital Technology Co., Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(xi) "Beijing Duokan" are to Beijing Duokan Technology Co., Ltd., a limited liability company established under the laws of mainland China and our VIE;

(xii) "Beijing Wenmi" are to Beijing Wenmi Culture Co., Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary;

(xiii) "Beijing Wali" are to Wali Information Technologies (Beijing) Ltd., a limited liability company established under the laws of mainland China and our indirect wholly-owned subsidiary; and

(xiv) "Beijing Wali Internet" are to Beijing Wali Internet Technologies Co., Ltd., a limited liability company established under the laws of mainland China and our VIE.

(2) Xiaomi Finance HK Offshore Subsidiaries include:

(i) Gravitation Fintech HK Limited, which is owned by Xiaomi Finance HK as to 90%;

(ii) Airstar Bank Limited, which is wholly-owned by Gravitation Fintech HK Limited;

(iii) Xiaomi Singapore Fintech Private Limited, which is wholly-owned by Xiaomi Finance HK; and

(iv) Xiaomi Financial Services India Private Limited, which is owned by Xiaomi Finance HK as to 99.99% and Xiaomi Singapore Fintech Private Limited as to 0.01%.

(3) Other Xiaomi Finance WFOEs include the following direct wholly-owned subsidiaries of Xiaomi Finance HK:

(i) Alpha Tianjin Financing Guarantee Co., Ltd.;

(ii) Shanghai Hongmi Information Technology Co., Ltd.;

(iii) Shanghai Xiaomi Financial Leasing Co., Ltd.; and

(iv) Tianjin Rongmi Financial Leasing Co., Ltd.

(4) Xiaomi Digital Technology Subsidiaries include the following direct wholly-owned subsidiaries of Xiaomi Digital Technology Co., Ltd.:

(i) Chengdu Beida Asset Management Co., Ltd.;

(ii) Beijing Shouwangxiangzhu Technology Co., Ltd; and

(iii) Shanghai Xiaomi Financial Information Service Co., Ltd.

(5) Beijing Electronic Software Subsidiaries include:

(i) the following direct wholly-owned subsidiaries of Beijing Xiaomi Electronic Software Co., Ltd.

(a) Xiaomi Credit Management Co. Ltd.;

(b) Shanghai Xiaomi Huike Information Service Co., Ltd.;

(c) Sichuan Silver Mi Technology Co., Ltd.; and

(ii) Beijing Xiaomi Insurance Brokerage Co., Ltd., which is wholly-owned by Sichuan Silver Mi Technology Co., Ltd.

(6) Fast Pace Limited Subsidiaries include:

(i) the following direct wholly-owned subsidiaries of Fast Pace Limited, all incorporated in the British Virgin Islands:

(a) Blue Better Limited;

(b) People Better Limited;

(c) Red Better Limited; and

(d) Green Better Limited;

(ii) Xiaomi USA LLC, which is wholly-owned by Blue Better Limited; and

(iii) Xiaomi USA Technology LLC, which is wholly-owned by Xiaomi USA LLC.

(7) Other Xiaomi Singapore Offshore Subsidiaries include:

(i) Xiaomi Malaysia SDN. BHD., which is wholly-owned by Xiaomi Singapore Pte. Ltd.;

(ii) Xiaomi Philippines Corporation, which is owned by Xiaomi Singapore Pte. Ltd. as to 99.9944%; and

(iii) Xiaomi Communications and Logistics India Private Limited, which is owned by Xiaomi Singapore Pte. Ltd. as to 99.9967%.

(8) Other Xiaomi H.K. Subsidiaries include:

(i) the following direct wholly-owned subsidiaries of Xiaomi H.K. Limited:

(a) Xiaomi Technologies Malaysia SDN. BHD.;

(b) Xiaomi Vietnam Company Limited;

(c) Xiaomi Technology Netherlands B.V.;

(d) Xiaomi Technology Spain, S.L.;

(e) Xiaomi Technology Italy S.R.L.;

(f) Xiaomi LLC;

(g) Xiaomi. Japan, LLC;

(h) XIAOMI TECHNOLOGY UK LIMITED;

(i) Xiaomi Technology France S.A.S.;

(j) Taiwan Xiaomi Communications Co., Ltd.;

(k) MI Space Limited;

(ii) Xiaomi Technology Germany GmbH, which is wholly-owned by Xiaomi Technology Netherlands B.V.;

(iii) Xiaomi Technology Switzerland GmbH, which is wholly-owned by Xiaomi Technology Netherlands B.V.;

(iv) Xiaomi Finland Oy, which is wholly-owned by Xiaomi Technology Netherlands B.V.;

(v) Xiaomi Turkey Teknoloji Limited Sirketi, which is wholly-owned by Xiaomi Technology Netherlands B.V.;

(vi) Xiaomi Technology Belgium (SRL/BV), which is wholly-owned by Xiaomi Technology Netherlands B.V.;

(vii) XIAOMI TECHNOLOGY PORTUGAL, UNIPESSOAL LDA, which is wholly-owned by Xiaomi Technology Netherlands B.V.;

(viii) Xiaomi Technology Japan Co., Ltd., which is wholly-owned by Xiaomi. Japan, LLC;

(ix) MI Space NJ Limited, which is wholly-owned by MI Space Limited;

(x) MI Space BJ Limited, which is wholly-owned by MI Space Limited;

(xi) MI Space WH Limited, which is wholly-owned by MI Space Limited;

(xii) MI Space Nanjing Information Technology Co., Ltd., which is wholly-owned by MI Space NJ Limited;

(xiii) MI Space (Beijing) Information Technology Co., Ltd., which is wholly-owned by MI Space BJ Limited;

(xiv) MI Space Wuhan Information Technology Co., Ltd., which is wholly-owned by MI Space WH Limited;

(xv) Xiaomi Technologies Bangladesh Private Limited, which is owned by Xiaomi H.K. Limited as to 0.0976% and Xiaomi Singapore Pte. Ltd. as to 99.9024%;

(xvi) XIAOMI DE MEXICO, S de R.L. de C.V., which is owned by Xiaomi H.K. Limited as to 99.9993% and Xiaomi Singapore Pte. Ltd. as to 0.0007%;

(xvii) PT. Xiaomi Technology Indonesia, which is owned by Xiaomi H.K. Limited as to 99.92% and Xiaomi Singapore Pte. Ltd. as to 0.08%;

(xviii) Xiaomi Technology (Polska) sp. z o.o., which is owned by Xiaomi H.K. Limited as to 99.9996% and Xiaomi Singapore Pte. Ltd. as to 0.0004%;

(xix) PT. Xiaomi Communications Indonesia, which is owned by Xiaomi H.K. Limited as to 80.37% and Xiaomi Singapore Pte. Ltd. as to 19.63%; and

(xx) Xiaomi Technology (Thailand) Limited, which is owned by Xiaomi H.K. Limited as to 99.9999%, Xiaomi Singapore Pte. Ltd. as to 0.00005% and Fast Pace Limited as to 0.00005%.

(9) Other Xiaomi Communications Subsidiaries include:

(i) the following direct wholly-owned subsidiaries of Xiaomi Communications Co., Ltd.:

(a) Beijing Pinecone Electronics Co., Ltd.;

(b) Shenzhen Xiaomi Information Technology Co., Ltd.;

(c) Beijing Shile Technology Co., Ltd.;

(d) Guangzhou Xiaomi Communications Co., Ltd.;

(e) Nanjing Xiaomi Technology Co., Ltd.;

(f) Xiaomi Technology (Wuhan) Co., Ltd.;

(g) Beijing Xiaomi Intelligence Technology Co., Ltd.;

(h) Xiaomi Home Technology Co., Ltd.;

(i) Guangdong Xiaomi Inc.;

(ii) Beijing Zilin Real Estate Co., Ltd., which is owned by Guangzhou Xiaomi Communications Co., Ltd. as to 95%; and

(iii) Shenzhen Xiaomi Communication Technology Co., Ltd., which is wholly-owned by Shenzhen Xiaomi Information Technology Co., Ltd.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

The following summary of the general information regarding our material indebtedness does not purport to be a complete description of and may not contain all of the information that may be important to prospective investors. Investors should read the consolidated financial statements (including, but not limited to, note 33 attached thereto) contained elsewhere in this offering memorandum for additional information about our indebtedness. As of December 31, 2020 and March 31, 2021, we had total borrowings of RMB17.6 billion (US$2.7 billion) and RMB21.0 billion (US$3.2 billion), respectively. The interest rate of our interest-bearing liabilities currently ranges from 2.05% to 10.0% per annum.

	As of March 31, 2021	
	RMB	**US$**
	(in thousands)	
Included in non-current liabilities		
Asset-backed securities(1)	–	–
Fund raised through trusts(2)	–	–
Secured borrowings(3)	1,814,081	276,883
Unsecured borrowings(4)	7,678,499	1,171,968
Convertible bonds(5)	4,120,124	628,854
	13,612,704	2,077,704
Included in current liabilities		
Asset-backed securities(1)	2,841,529	433,702
Fund raised through trusts(2)	547,500	83,565
Secured borrowings(3)	599,295	91,470
Unsecured borrowings(4)	3,403,857	519,530
	7,392,181	1,128,267
Total	**21,004,885**	**3,205,972**

Notes:

(1) We have securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("ABS"). As of March 31, 2021, the total ABS amounting to RMB2,841,529,000 bore interest at 2.59%-7.50% per annum.

(2) We have securitized certain loan receivables and raised several rounds of funds through third party trusts. As of March 31, 2021, the fund raised through trust amounting to RMB547,500,000 bore interest 7.00% per annum. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature by December 2021.

(3) As of March 31, 2021, RMB2,303,488,000 of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB7,394,399,000. The interest rate of these borrowings was 4.05%-4.90% per annum. Among these borrowings, RMB200,000,000 should be repaid by the end of May 10, 2021, RMB36,873,000 should be repaid by the end of September 7, 2021, RMB200,000,000 should be repaid by the end of November 10, 2021, RMB15,661,000 should be repaid by the end of December 29, 2021, RMB36,873,000 should be repaid by the end of March 8, 2022, RMB867,728,000 should be repaid by the end of March 23, 2027, RMB523,527,000 should be repaid by the end of December 12, 2027 and RMB422,826,000 should be repaid by the end of July 6, 2035.

As of March 31, 2021, RMB109,888,000 represented the bills discounted with recourse, which should be repaid within one year.

(4) We issued US$600,000,000 (equivalent to approximately RMB3,942,780,000) senior notes to professional investors on April 29, 2020 with a term to maturity of ten years and at interest rate 3.375% per annum. The net proceeds of the notes issued, after deducting initial purchasers' discount and offering expenses payable, was approximately US$589,900,000 (equivalent to approximately RMB3,876,410,000).

We issued RMB1,000,000,000 bonds in Mainland China on April 2, 2020 with a term to maturity of one year and at coupon rates 2.78% per annum.

We had RMB190,000,000 unsecured borrowings with interest rate 5.10% per annum, RMB210,000,000 unsecured borrowings with interest rate 3.59% per annum, RMB88,539,000 unsecured borrowings with interest rate 4.31% per annum, RMB97,206,000 unsecured borrowings with interest rate 4.25% per annum, RMB133,212,000 unsecured borrowings with interest rate 3.85% per annum, RMB300,000,000 unsecured borrowings with interest rate 3.85% per annum. All of these borrowings should be repaid by the Group in 2021.

We had US$112,224,000 (equivalent to approximately RMB737,591,000) unsecured borrowings with interest rate 1 month London Inter Bank Offered Rate (the "LIBOR") +0.33% per annum, which should be repaid by the end of September 17, 2021. We had US$480,000,000 (equivalent to RMB3,154,224,000) unsecured borrowings with interest rate 1 month LIBOR + 1.1% per annum, which should be repaid by the end of May 19, 2025.

We had RMB400,000,000 and RMB200,000,000 of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in April and June of 2021, respectively. The Group had RMB500,000,000 of borrowings with interest rate 2.69% per annum secured by intra-group companies, which should be repaid by the end of November 20, 2023.

The Group had RMB206,000,000 unsecured borrowings with interest rate 4.66% per annum. Among of these borrowings, RMB21,000,000 should be repaid by the Group in 2021, and RMB185,000,000 should be repaid by the end of November 26, 2029.

(5) On December 17, 2020, we completed the issuance of 7-Year US$855,000,000 (equivalent to approximately RMB5,578,790,000) zero coupon guaranteed convertible bonds due on December 17, 2027 to third party professional investors (the "Bondholders of the 2027 Bonds"). The Bondholders of the 2027 Bonds have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the 2027 Bonds into ordinary shares of the Group at a conversion price of HK$36.74 per share, subject to adjustments. We will, at the option of the Bondholders of the 2027 Bonds, redeem all or some only of their 2027 Bonds on December 17, 2025 at the principal amount. We may at any time after December 17, 2025 and prior to the maturity date redeem in whole, but not in part, (i) the 2027 Bonds for the time being outstanding at their principal amount, provided that the closing price of a share, for 20 out of 30 consecutive trading days was of least 130 percent of the conversion price, (ii) the 2027 Bonds at their principal amount, if, immediately prior to the date the notice of redemption is given, 90 percent or more in principal amount of the 2027 Bonds originally issued has already been converted, redeemed or purchased and canceled. The outstanding principal amount of the 2027 Bonds is repayable by the Group upon the maturity of the 2027 Bonds on December 17, 2027, if not previously redeemed, converted or purchased and canceled.

DESCRIPTION OF THE 2031 BONDS

The 2031 Bonds are to be issued under an indenture (the "2031 Bonds Indenture") to be executed among Xiaomi Best Time International Limited (the "Issuer"), Xiaomi Corporation (the "Guarantor") and Citicorp International Limited, as trustee (the "Trustee"). Copies of the 2031 Bonds, the relevant Guarantee (as defined below) and the 2031 Bonds Indenture will be available for inspection during normal business hours at the corporate trust office of the Trustee. The following summary of the material terms of the 2031 Bonds, the relevant Guarantee and the 2031 Bonds Indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the 2031 Bonds Indenture, including definitions of specified terms used in therein. We urge you to read the 2031 Bonds Indenture because it, and not this description, defines your rights as a beneficial holder of the 2031 Bonds. Holders are deemed to have notice of all the provisions of the 2031 Bonds Indenture and the Guarantee applicable to them.

In this description, references to the "Guarantor" mean Xiaomi Corporation only and do not include any of our Subsidiaries or Consolidated Affiliated Entities; references to the "Bonds" mean the 2031 Bonds only, the "Guarantee" mean the Guarantee in respect of the 2031 Bonds; and references to the "Indenture" mean the 2031 Bonds Indenture.

General

The Bonds will initially be issued in an aggregate principal amount of US$800,000,000 and will mature on July 14, 2031, unless they are redeemed prior to the maturity pursuant to the Indenture and the terms thereof. The Bonds will bear interest at the rate of 2.875% per annum. Interest on the Bonds will accrue from July 14, 2021 and will be payable semi-annually in arrears on January 14 and July 14 of each year, beginning on January 14, 2022, to the persons in whose names the Bonds are registered at the close of business on the preceding December 30 and June 29, respectively, which are referred to as the record dates. At maturity, the Bonds are payable at their principal amount plus accrued and unpaid interest thereon. In any case where the payment of principal of, premium (if any) or interest on the Bonds is due on a date that is not a Business Day, then payment of principal of, premium (if any) or interest on the Bonds, as the case may be, shall be made on the next succeeding Business Day and no interest shall accrue with respect to such payment for the period from and after such date that is not a Business Day to such next succeeding Business Day. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds shall be denominated in minimum principal amounts of US$200,000 and in integral multiples of US$1,000 in excess thereof. The Bonds will only be issued in registered form.

Payments on the Bonds; Paying Agent and Registrar

The principal of, premium, if any, interest on, and all other amounts payable under, the Bonds are payable, and the Bonds may be exchanged or transferred, at the office or agency of the Issuer in the Borough of Manhattan, the City of New York or at such other location or locations as the Issuer, in consultation with the Trustee, may designate. The principal of and interest on the Bonds shall be made by wire transfer or otherwise in immediately available and cleared funds and payable in U.S. dollars or in such other coin or currency of the United States of America as of the time of payment is legal tender for the payment of public and private debts. Payments of interest and principal with respect to interests in the Bonds will be credited to the respective accounts of the holders of such interests with DTC or its participants, including Euroclear and Clearstream; *provided* that, at the option and expenses of the Issuer, payment of interest may be made by wire transfer to the registered account of the person entitled thereto details of which appear in the register. Any payments of principal of, premium, if any, and interest on the Bonds to be made on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment.

The Issuer has initially designated Citibank, N.A., London Branch to act as its paying agent (the "Paying Agent"), transfer agent (the "Transfer Agent") and registrar (the "Registrar"). The Paying Agent, Transfer

Agent and Registrar are each referred to as an "Agent," and together, the "Agents." The Issuer may, however, change the Paying Agent, Transfer Agent or Registrar without prior notice to the holders of the Bonds.

Payment of the principal of, premium, if any, and interest on the Bonds held through the DTC will be credited to the respective accounts of the holders of the Bonds with DTC or its participants, including Euroclear and Clearstream. See "– Book-Entry, Delivery and Form."

Ranking

The Bonds will constitute senior unsecured obligations of the Issuer. The Bonds will rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Bonds and rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Bonds will be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor.

Guarantee

The Guarantor will unconditionally and irrevocably guarantee (the "Guarantee") to each holder of a Bond authenticated and delivered by the Trustee the due and punctual payment of all amounts due, including principal, premium (if any) and interest, on such Bond (and any Additional Amounts (as defined in "– Additional Amounts") payable in respect thereof), when and as the same shall become due and payable, whether at the stated maturity, by declaration of acceleration, by call for redemption, repurchase or otherwise, in each case in accordance with the terms of such Bond and of the Indenture. The Guarantee will constitute a direct, unconditional, senior and unsecured obligation of the Guarantor. The payment obligations of the Guarantor under the Guarantee will rank senior in right of payment to all of the Guarantor's existing and future obligations expressly subordinated in right of payment to the Guarantee and rank at least equal in right of payment with all of the Guarantor's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Guarantee will be effectively subordinated to all the Guarantor's present and future secured obligations to the extent of the value of the collateral securing such obligations, and be structurally subordinated to all the present and future obligations (whether secured or unsecured) of its Subsidiaries and Consolidated Affiliated Entities.

Issuance of Additional Bonds

The Issuer may, from time to time, without the consent of the holders of the Bonds, issue additional bonds having the same terms and conditions as the previously outstanding Bonds in all respects (or in all respects except for the issue date, the issue price and the first payment of interest) (the "Additional Bonds"). Additional Bonds issued in this manner may be consolidated with and form a single series with the previously outstanding Bonds, *provided* that such Additional Bonds must not have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Bonds unless such Additional Bonds are fungible with the outstanding Bonds for U.S. federal income tax purposes.

Optional Redemption

The Issuer may, at the Issuer's or the Guarantor's option, at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Bonds (which notice shall be irrevocable), redeem the Bonds prior to Apil 14, 2031, in whole or in part, at a redemption amount equal to the greater of:

- 100% of the principal amount of the Bonds to be redeemed; and

- the make-whole amount, which means the amount determined on the fifth Business Day before the redemption date equal to the sum of (i) the present value of the principal amount of the Bonds to be redeemed, assuming a scheduled repayment thereof on the stated maturity date, plus (ii) the present value of the remaining scheduled payments of interest to and including the stated maturity date, in each case discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed) at the Treasury Yield plus 25 basis points,

plus, in each case, accrued and unpaid interest on the Bonds to be redeemed, if any, to, but not including, the redemption date; *provided* that the principal amount of a Bond remaining outstanding after redemption in part shall be US$200,000 or an integral multiple of US$1,000 in excess thereof. For the avoidance of doubt, neither the Trustee nor the Agents shall be responsible for calculating the make-whole amount.

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Bonds, redeem the Bonds at any time on or after April 14, 2031, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest, if any, to (but not including) the date of redemption; *provided* that the principal amount of a Bond remaining outstanding after redemption in part shall be US$200,000 or integral multiples of US$1,000 in excess thereof.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 but not more than 60 calendar days prior to the redemption date to each holder of the Bonds to be redeemed at its registered address. The notice of redemption for the Bonds will state, among other things, the redemption date, the redemption price and (if the Bonds are in certificated form) where such Bonds are to be surrendered for payment of the redemption price and the Bonds called for redemption must be surrendered to the Paying Agent to collect the redemption price. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on any Bonds that have been called for redemption on and after the redemption date. If less than all of the Bonds are to be redeemed, the Bonds for redemption will be selected as follows: (i) if the Bonds are listed on a securities exchange then in compliance with the rules of such securities exchange and if the Bonds are held through the clearing systems then in compliance with the rules and procedures of the clearing systems, or (ii) if the Bonds are not listed on a securities exchange or held through the clearing systems, then by lot or such other method as the Trustee shall deem to be fair and appropriate in its sole and absolute discretion or as otherwise required by applicable law.

Tax Redemption

The Issuer may redeem the Bonds at any time, at its or the Guarantor's option, in whole but not in part, upon written notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, if (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined under "– Payment of Additional Amounts") (or, in the case of Additional Amounts payable by a Successor Entity (as defined under "– Certain Covenants – Consolidation, Merger and Sale of Assets"), the applicable Successor Jurisdiction (as defined under "– Payment of Additional Amounts")), or any change in the official application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the issue date of the Bonds (or, in the case of Additional Amounts payable by a Successor Entity, the date on which such Successor Entity became a Successor Entity pursuant to the applicable provisions of the Indenture) (a "Tax Change"), the Issuer, the Guarantor or any such Successor Entity is, or would be, obligated to pay Additional Amounts upon the next payment of principal, premium (if any) or interest in respect of such Bonds and (ii) such obligation cannot be avoided by the Issuer, the Guarantor, or any such Successor Entity taking reasonable measures available to it, *provided* that changing the Issuer, the Guarantor or such Successor Entity's jurisdiction is not a reasonable measure for purposes of this section.

Prior to the giving of any notice of redemption of the Bonds pursuant to the foregoing, the Issuer, the Guarantor or any such Successor Entity shall deliver to the Trustee (i) a notice of such redemption election, (ii) an opinion of external legal counsel or an opinion of an independent tax consultant to the effect that the Issuer, the Guarantor or any such Successor Entity is, or would become, obligated to pay such Additional Amounts as the result of a Tax Change and (iii) an officer's certificate from the Issuer, the Guarantor or any such Successor Entity, stating that such amendment or change has occurred, describing the facts leading thereto and stating that such requirement cannot be avoided by the Issuer, the Guarantor or any such Successor Entity taking reasonable measures available to it. The Trustee shall be entitled to rely conclusively upon such certificate and opinion as sufficient evidence of the conditions precedent described above, in which event it shall be conclusive and binding on the relevant holders.

Notice of redemption of the Bonds as provided above shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 calendar days prior to the redemption date to each holder of Bonds to be redeemed at its registered address; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, the Guarantor or any such Successor Entity would be required to pay Additional Amounts if a payment in respect of such Bonds were then due. Notice having been given, the Bonds shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, at the place or places of payment and in the manner specified in the Bonds. From and after the redemption date, if moneys for the redemption of such Bonds shall have been made available as provided in the Indenture for redemption on the redemption date, the Bonds shall cease to bear interest, and the only right of the holders of such Bonds shall be to receive payment of the redemption price and accrued and unpaid interest, if any, to, but not including, the date fixed for redemption.

Repurchase Upon Triggering Event

If a Triggering Event occurs, unless the Issuer has exercised the Issuer's or the Guarantor's right to redeem the Bonds as described under "– Tax Redemption" or under "– Optional Redemption" above, the Issuer will be required to make an offer to repurchase all or, at the holder's option, any part (equal to US$200,000 or integral multiples of US$1,000 in excess thereof, *provided* that the principal amount of any Bond remaining after partial redemption shall be US$200,000 or integral multiples of US$1,000 in excess thereof), of each holder's Bonds pursuant to the offer described below (the "Triggering Event Offer") on the terms set forth in the Indenture and the Bonds. In the Triggering Event Offer, the Issuer will be required to offer payment in cash equal to 101% of the aggregate principal amount of Bonds repurchased plus accrued and unpaid interest, if any, on the Bonds repurchased to, but not including, the date of purchase (the "Triggering Event Payment").

Within 30 days following a Triggering Event, the Issuer will be required to mail a notice to holders of the Bonds, with a copy to the Trustee and the Paying Agent, describing the transaction or transactions that constitute the Triggering Event and offering to repurchase the Bonds on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the "Triggering Event Payment Date"), pursuant to the procedures required by the Bonds and described in such notice.

On the Triggering Event Payment Date, the Issuer will be required, to the extent lawful, to:

- accept for payment all Bonds or portions of Bonds properly tendered pursuant to the Triggering Event Offer;

- deposit with the relevant Paying Agent one Business Day prior to the Triggering Event Payment Date an amount of cash in U.S. dollars equal to the Triggering Event Payment in respect of all Bonds or portions of Bonds properly tendered; and

- deliver or cause to be delivered to the Trustee the Bonds properly accepted together with an officer's certificate stating the aggregate principal amount of Bonds or portions of Bonds being purchased by the Issuer.

The Paying Agent will be required to promptly mail, to each holder who properly tendered the Bonds, the purchase price for such Bonds properly tendered, and the Trustee or an authenticating agent will be required to promptly authenticate and mail (or cause to be transferred by book-entry) to each such holder a new Bond equal in principal amount to any unpurchased portion of the Bonds surrendered, if any; *provided* that each new Bond will be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof.

The Issuer will not be required to make a Triggering Event Offer upon a Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Issuer and such third party purchases all Bonds properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults on its offer, the Issuer will be required to make a Triggering Event Offer treating the date of such termination or default as though it were the date of the Triggering Event.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws and regulations thereunder in connection with the repurchase of the Bonds as a result of a Triggering Event. To the extent that the provision of any such securities laws or regulations conflicts with the Triggering Event Offer provisions of the Bonds, the Issuer will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Triggering Event Offer provisions of the Bonds by virtue of any such conflict.

There can be no assurance that the Issuer or the Guarantor will have sufficient funds available at the time of a Triggering Event to consummate a Triggering Event Offer for all Bonds then outstanding (or all Bonds properly tendered by the holders of such Bonds) and pay the Triggering Event Payment. The Issuer may also be prohibited by terms of other indebtedness or agreements from repurchasing the Bonds upon a Triggering Event, which would require the Issuer to repay the relevant indebtedness or terminate the relevant agreement before it can proceed with a Triggering Event Offer, and there can be no assurance that it will be able to effect such repayment or termination.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Triggering Event or any event which could lead to a Triggering Event has occurred and shall not be liable to any persons for any failure to do so.

Payment of Additional Amounts

All payments of principal, premium (if any) and interest made in respect of the Bonds or under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("Taxes") imposed or levied by or within the Cayman Islands, Hong Kong, the PRC or any jurisdiction where the Issuer, the Guarantor or the Paying Agent are otherwise considered by a taxing authority to be a resident for tax purposes (in each case, including any political subdivision or any authority therein or thereof having power to tax) (the "Relevant Jurisdiction"), unless such withholding or deduction of such Taxes is required by law. If such withholding or deduction is so required, the Issuer or the Guarantor will pay such additional amounts ("Additional Amounts") as will result in receipt by each holder of any Bonds of such amounts as would have been received by such holder had no such withholding or deduction of such Taxes been required, except that no such Additional Amounts shall be payable:

(i) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection (whether present or former) between the holder or beneficial owner of a Bond and the Relevant Jurisdiction other than merely holding such Bond or receiving principal, premium (if any) or interest in respect thereof (including such holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein);

(ii) in respect of any Bond presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the "relevant date" in relation to any Bond means the later of (a) the due date for such payment or (b) the date such payment was made or duly provided for;

(iii) in respect of any Taxes that would not have been imposed, deducted or withheld but for a failure of the holder or beneficial owner of a Bond to comply with a timely request by the Issuer or the

Guarantor addressed to the holder or beneficial owner to provide information concerning such holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such holder;

(iv) in respect of any Taxes imposed as a result of a Bond being presented for payment (where presentation is required) in the Relevant Jurisdiction, unless such Bond could not have been presented for payment elsewhere;

(v) in respect of any estate, inheritance, gift, sale, transfer, personal property or similar Taxes, assessment or other similar governmental charge;

(vi) to any holder of a Bond that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the holder thereof;

(vii) with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations thereunder ("FATCA"), any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or guidance enacted or issued with respect thereto;

(viii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Bond or Guarantee; or

(ix) any combination of Taxes referred to in the preceding items (i) through (viii) above.

In the event that any withholding or deduction for or on account of any Taxes is required and Additional Amounts are payable with respect thereto, at least 10 Business Days prior to each date of payment of principal of, premium (if any) or interest on the Bonds, the Issuer (or the Guarantor) will furnish to the Trustee and the Paying Agent, if other than the Trustee, an officer's certificate specifying the amount required to be withheld or deducted on such payments to such holders, certifying that the Issuer shall pay such amounts required to be withheld to the appropriate governmental authority and certifying to the fact that the Additional Amounts will be payable and the amounts so payable to each holder, and that the Issuer will pay to the Trustee or such Paying Agent the Additional Amounts required to be paid; *provided* that no such officer's certificate will be required prior to any date of payment of principal of, premium (if any) or interest on such Bonds if there has been no change with respect to the matters set forth in a prior officer's certificate. The Trustee and each Paying Agent shall be entitled to rely on the fact that any officer's certificate contemplated by this paragraph has not been furnished as evidence of the fact that no withholding or deduction for or on account of any Taxes is required. The Issuer and the Guarantor covenant to indemnify the Trustee and any Agent for and to hold them harmless against any loss, liability or properly incurred expense without fraudulent activity, gross negligence or wilful misconduct on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any such officer's certificate furnished pursuant to this paragraph or on the fact that any officer's certificate contemplated by this paragraph has not been furnished.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Bond, such mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

The foregoing provisions shall apply in the same manner with respect to the jurisdiction in which any Successor Entity or its Paying Agent is organized or resident for tax purposes or any authority therein or thereof having the power to tax (a "Successor Jurisdiction"), substituting such Successor Jurisdiction for the Relevant Jurisdiction.

The Issuer's (or the Guarantor's) obligation to make payments of Additional Amounts under the terms and conditions described above will survive any termination, defeasance or discharge of the Indenture.

Open Market Purchases

The Issuer, the Guarantor or any of its Controlled Entities may, in accordance with all applicable laws and regulations, at any time purchase the Bonds issued under the Indenture in the open market or otherwise at any price, so long as such purchase does not otherwise violate the terms of the Indenture. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of its Controlled Entities, shall not be deemed to be outstanding for the purposes of determining whether the holders of the requisite principal amount of outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder.

Modification and Waiver

The Indenture contains provisions permitting the Issuer, the Guarantor and the Trustee, without the consent of the holders of the Bonds, to execute supplemental indentures for certain enumerated purposes in the Indenture and, with the consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, to add, change, eliminate or modify in any way the provisions of the Indenture or any supplemental indentures or to change or modify in any manner the rights of the holders of such Bonds. The Issuer, the Guarantor and the Trustee may not, however, without the consent of each holder of the Bonds affected thereby:

(i) change the Stated Maturity of any Bond;

(ii) reduce the principal amount of, payments of interest on or stated time for payment of interest on any Bond;

(iii) release the Guarantor from its Guarantee;

(iv) change any obligation of the Issuer or the Guarantor to pay Additional Amounts with respect to any Bond;

(v) change the currency of payment of the principal of, premium (if any) or interest on any Bond;

(vi) impair the right to institute suit for the enforcement of any payment due on or with respect to any Bond;

(vii) reduce the above stated percentage of outstanding Bonds necessary to modify or amend the Indenture;

(viii) reduce the percentage of the aggregate principal amount of outstanding Bonds necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(ix) modify the provisions of the Indenture with respect to modification and waiver;

(x) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Bonds in a manner which adversely affects the holders of such Bonds;

(xi) reduce the amount of the premium payable upon the redemption or repurchase of the Bonds or change the time at which such Bonds may be redeemed or repurchased as described above under "– Tax Redemption"; or

(xii) reduce the amount of the premium payable upon the redemption or repurchase of the Bonds or change the time at which any such Bonds may be redeemed or repurchased as described above under

"– Optional Redemption", "– Tax Redemption" or "– Repurchase Upon Triggering Event" whether through an amendment or waiver of provisions in the covenants, definitions or otherwise (except through amendments to the definition of "Triggering Event").

The holders of not less than a majority in aggregate principal amount of the Bonds then outstanding may on behalf of all holders of the Bond waive any existing or past Default or Event of Default and its consequences under the Indenture, except a continuing Default or Event of Default (i) in the payment of principal of, premium (if any) or interest on (or Additional Amount payable in respect of), any Bond then outstanding, in which event the consent of all holders of the Bonds then outstanding affected thereby is required, or (ii) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each Bond then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Bonds, whether or not they have given consent to such waivers, and on all future holders of the Bonds, whether or not notation of such waivers is made upon the Bonds. Any instrument given by or on behalf of any holder of a Bond in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Bond.

Notwithstanding the foregoing, without the consent of any holder of the Bond, the Issuer, the Guarantor and the Trustee may amend the Indenture and the relevant Bonds and Guarantee to, among other things:

(i) cure any ambiguity, omission, defect or inconsistency contained in the Indenture or in any supplemental indenture; *provided*, however, that such amendment does not materially and adversely affect the rights of holders;

(ii) evidence the succession of another corporation to the Issuer or the Guarantor, or successive successions, and the assumption by such successor of the covenants and obligations of the Issuer or the Guarantor contained in the Bonds or the Guarantee and in the Indenture or any supplemental indenture;

(iii) comply with the rules of any applicable depositary;

(iv) secure the Bonds;

(v) add to the covenants and agreements of the Issuer or the Guarantor, to be observed thereafter and during the period, if any, in such supplemental indenture or indentures expressed, and to add Events of Default, in each case for the protection or benefit of the holders of the Bonds, or to surrender any right or power therein conferred upon the Issuer or the Guarantor;

(vi) make any change in the Bonds that does not adversely affect the legal rights under the Indenture of any holder of such Bonds in any material respect;

(vii) evidence and provide for the acceptance of an appointment under the Indenture of a successor trustee; *provided* that the successor trustee is otherwise qualified and eligible to act as such under the terms thereof;

(viii) make any amendment to the provisions of the Indenture relating to the transfer and legending of Bonds as permitted by the Indenture, including, but not limited to, facilitating the issuance and administration of the Bonds or, if incurred in compliance with the Indenture, Additional Bonds; *provided*, however, that (A) compliance with the Indenture as so amended would not result in the Bonds being transferred in violation of any applicable securities law and (B) such amendment does not materially and adversely affect the rights of holders to transfer Bonds;

(ix) change or eliminate any of the provisions of the Indenture; *provided* that any such change or elimination shall become effective only when there is no outstanding Bond created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision and as to which such supplemental indenture would apply;

(x) add guarantors or co-obligors with respect to the Bonds;

(xi) establish the form and terms of Bonds as permitted under the Indenture, or to provide for the issuance of Additional Bonds in accordance with the limitations set forth in the Indenture, or to add to the conditions, limitations or restrictions on the authorized amount, terms or purposes of issue, authentication or delivery of the Bond, as therein set forth, or other conditions, limitations or restrictions thereafter to be observed; or

(xii) conform the text of the Indenture or the Bonds or Guarantee to any provision of this "Description of the 2031 Bonds" to the extent that such provision in this "Description of the 2031 Bonds" was intended to be a verbatim recitation of a provision of the Indenture, the Bonds or the Guarantee as evidenced by an officer's certificate.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed amendment, supplement or waiver. A consent to any amendment, supplement or waiver under the Indenture by any holder given in connection with a tender of such holder's Bonds will not be rendered invalid by such tender. After an amendment, supplement or waiver under the Indenture becomes effective, the Issuer is required to give to the holders a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all the holders, or any defect in such notice, will not impair or affect the validity of the amendment, supplement or waiver.

Limitation on Liens

So long as any Bond remains outstanding, the Guarantor will not create or have outstanding, and the Guarantor will ensure that none of its Principal Controlled Entities and the Issuer will create or have outstanding, any Lien upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) securing any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness either of the Issuer, the Guarantor, or of any of the Guarantor's Principal Controlled Entities, without (i) at the same time or prior thereto securing or guaranteeing the Bonds, as applicable, equally and ratably therewith (or in priority thereto) or (ii) providing such other security or guarantee for the Bonds as shall be approved by an act of the holders of the Bonds holding at least a majority of the principal amount of the Bonds then outstanding.

The foregoing restriction will not apply to:

(i) any Lien arising or already arisen automatically by operation of law which is timely discharged or disputed in good faith by appropriate proceedings;

(ii) any Lien in respect of the obligations of any Person which becomes a Principal Controlled Entity or which merges with or into the Guarantor or a Principal Controlled Entity after the date of the Indenture which is in existence at the date on which it becomes a Principal Controlled Entity of the Guarantor or merges with or into the Guarantor or a Principal Controlled Entity; *provided* that any such Lien was not incurred in anticipation of such acquisition or of such Person becoming a Principal Controlled Entity or being merged with or into the Guarantor or a Principal Controlled Entity;

(iii) any Lien created or outstanding in favor of the Issuer or the Guarantor;

(iv) any Lien in respect of Relevant Indebtedness of the Issuer, the Guarantor or any Principal Controlled Entity with respect to which the Issuer, the Guarantor or such Principal Controlled Entity has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Issuer, the Guarantor or such Principal Controlled Entity in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full);

(v) any Lien created in connection with Relevant Indebtedness of the Issuer, the Guarantor or any Principal Controlled Entity denominated in RMB and initially offered, marketed or issued primarily to Persons resident in the PRC;

(vi) any Lien created in connection with a project financed with, or created to secure, Non-recourse Obligations; or

(vii) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by the foregoing clause (ii) or (vi); *provided* that such Relevant Indebtedness is not increased beyond the principal amount thereof (together with the costs of such refinancing, extension, renewal or refunding) and is not secured by any additional property or assets.

Limitation on Ownership

While any Bond remains outstanding, the Guarantor will maintain 100% ownership of the Issuer.

The Guarantor will cause the Issuer to elect to be treated as its disregarded entity for U.S. federal income tax purposes effective as of the Original Issue Date, and neither the Issuer or the Guarantor will take any action that is inconsistent with the Issuer being treated as a disregarded entity for U.S. federal income tax purposes.

While any Bond issued by the Issuer remains outstanding, the Issuer shall not issue any debt instrument that is treated as equity for U.S. federal income tax purposes.

Consolidation, Merger and Sale of Assets

The Issuer may not consolidate with or merge into any other Person in a transaction in which the Issuer is not the surviving entity, or convey, transfer or lease its properties and assets (computed on a consolidated basis) substantially as an entirety to, any Person unless:

(i) any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is the Guarantor or an entity 100% of the equity of which is directly owned by the Guarantor and that has elected to be treated as a disregarded entity for U.S. federal income tax purposes (a "Issuer Successor Entity") and such Issuer Successor Entity expressly assumes by indentures supplemental to the Indenture all of the Issuer's obligations under the Indenture and the Bonds, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;

(ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(iii) the Issuer has delivered to the Trustee an officer's certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indentures comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

The Guarantor may not consolidate with or merge into any other Person in a transaction in which the Guarantor is not the surviving entity, or convey, transfer or lease its properties and assets (computed on a consolidated basis) substantially as an entirety to, any Person unless:

(i) any Person formed by such consolidation or into which the Guarantor is merged or to whom the Guarantor has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the Cayman Islands (a "Guarantor Successor Entity;" any Issuer Successor Entity or Guarantor Successor Entity is referred to as a "Successor Entity") and such Guarantor Successor Entity expressly assumes by indentures supplemental to the Indenture all of the Guarantor's obligations under the Indenture, the Bonds and the Guarantee, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;

(ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(iii) the Guarantor has delivered to the Trustee an officer's certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indentures comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

Reports

So long as any of the Bonds remain outstanding, the Guarantor will file with the Trustee and furnish to the holders of the Bonds upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with the Stock Exchange of Hong Kong or any other recognized exchange on which the Guarantor's Capital Stock are at any time listed for trading, true and correct copies of any financial or other report filed with such exchange; *provided* that if at any time the Capital Stock of the Guarantor ceases to be listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee and furnish to the holders of the Bonds in the English language:

(i) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Guarantor, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;

(ii) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of the Guarantor, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and

(iii) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Guarantor, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Guarantor together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor as at the end of, and the results of its operations for, the relevant quarterly period.

In addition, so long as any of the Bonds remains outstanding, as soon as possible and in any event within 10 calendar days after the Issuer or the Guarantor becomes aware of the occurrence thereof (or at any time within 14 days of any request in writing by the Trustee), written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officers' certificate of the Issuer or the Guarantor, as the case may be, setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

Furthermore, the Issuer and the Guarantor will agree that, during any period in which the Issuer and the Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Guarantor, as the case may be, will, upon request of any holder or beneficial owner of a Bond, supply to (i) any holder or beneficial owner of a Bond or (ii) a prospective purchaser of a Bond or a beneficial interest therein designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Payments for Consent

The Issuer and the Guarantor will not, and will not permit any of the Guarantor's Controlled Entities to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Bonds for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Bonds unless such consideration is offered to be paid and is paid to all holders of the Bonds that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

NDRC Post-issue Filing

The Issuer will notify the Trustee if it does not file or cause to be filed with the National Development and Reform Commission of the PRC (the "NDRC") the requisite information and documents required to be filed with the NDRC within 10 PRC Business Days after the issue date of the Bonds in accordance with the Registration Certificate of Enterprise Foreign Debt Filing issued by the NDRC on February 9, 2021 and the Letter to Approve the Adjustment to the Registration Certificate of Enterprise Foreign Debt Filing issued by the NDRC on June 23, 2021, pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations issued by the NDRC on September 14, 2015 and any implementation rules as issued by the NDRC as in effect at such time (the "Post-Issuance Filing"). Such notification to the Trustee will be made within 10 PRC Business Days after such failure to complete the Post-Issuance Filing.

"PRC Business Day" means a day other than a Saturday, Sunday or a day on which banking institutions in the PRC are authorized or obligated by law, regulation or executive order to remain closed.

Events of Default

Under the terms of the Indenture, each of the following constitutes an Event of Default for the Bonds:

(i) failure to pay principal or premium in respect of any Bonds by the due date for such payment (whether at Stated Maturity or upon acceleration, repurchase, redemption or otherwise);

(ii) failure to pay interest on any Bonds within 30 days after the due date for such payment;

(iii) the Issuer or the Guarantor defaults in the performance of or breach its obligations under the "– Consolidation, Merger and Sale of Assets" covenant;

(iv) the Issuer or the Guarantor defaults in the performance of or breach any covenant or agreement in the Indenture or under the Bonds (other than a default specified in clause (i), (ii) or (iii) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the holders of 25% or more in aggregate principal amount of the Bonds;

(v) (1) there occurs with respect to any indebtedness of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has resulted in the holder thereof declaring the principal of such indebtedness to be due and payable prior to its stated maturity or (B) a failure to make a payment of principal, interest or premium when due (after giving effect to the expiration of any applicable grace period therefor, a "Payment Default") and (2) the outstanding principal amount of such indebtedness, together with the outstanding principal amount of any other indebtedness of such Persons under which there has been a Payment Default or the maturity of which has been so accelerated, is equal to or exceeds the greater of (x) US$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Guarantor's Total Equity;

(vi) one or more final judgments or orders for the payment of money are rendered against the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons (net of any amounts that the Group's insurance carriers have paid or agreed to pay with respect thereto under applicable policies) to exceed the greater of (x) US$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Guarantor's Total Equity, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(vii) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities bankrupt or insolvent, or approving as final and nonappealable a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and in any such case the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days;

(viii) the commencement by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities of a voluntary case or proceeding under any applicable federal, state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities to the entry of a decree or order for relief in respect of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or the commencement of any bankruptcy or insolvency case or proceeding against the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities, or the filing by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities of a petition or answer or consent seeking reorganization or relief with respect to the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as it becomes due, or the admission by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities in writing of their inability to pay the debts generally as they become due, or the taking of corporate action by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities that resolves to commence any such action; or

(ix) the Bonds, the Guarantee or the Indenture is or becomes or is claimed by the Issuer or the Guarantor to be unenforceable, invalid or ceases to be in full force and effect otherwise than is permitted by the Indenture.

However, a default under clause (iv) of the preceding paragraph will not constitute an Event of Default until the Trustee or the holders of 25% or more in aggregate principal amount of the then outstanding Bonds provide written notice to the Issuer or the Guarantor of the default and it does not cure such default within the time specified in clause (iv) of the preceding paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clauses (vii) and (viii) above) shall occur and be continuing, either the Trustee (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) or the holders of at least 25% in aggregate principal amount of the Bonds then outstanding by written notice as provided in the Indenture may declare the unpaid principal amount of such Bonds and any accrued and unpaid interest thereon (and any Additional Amount payable in respect thereof) to be due and payable immediately upon receipt of such notice. If an Event of Default in clause (v) above shall occur, the declaration of acceleration of the Bonds shall be automatically annulled if the default triggering such Event of Default pursuant to clause (v) shall be remedied or cured by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or waived by the holders of the relevant indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Bonds would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium (if any) or interest on the Bonds that became due solely because of the acceleration of the Bonds, have been cured or waived. If an Event of Default in clauses (vii) and (viii) above shall occur, the unpaid principal amount of all the Bonds then outstanding and any accrued and unpaid interest thereon will automatically, and without any declaration or other action by the Trustee or any holder of such Bonds, become immediately due and payable.

After a declaration of acceleration but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding may, under certain circumstances, waive all past defaults and rescind and annul such acceleration if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium, if any, or interest on such Bonds that became due solely because of the acceleration of such Bonds, have been cured or waived. For information as to waiver of defaults, see "– Modification and Waiver."

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of the trusts or powers vested in it by the Indenture at the request, order or direction of any of the holders of Bonds, unless such holders shall have offered to the Trustee pre-funding, security and/or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby. Subject to certain provisions, including those requiring pre-funding, security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Bonds then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. No holder of any Bond will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or the Bonds, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Bonds, (ii) the holders of at least 25% in aggregate principal amount of the Bonds then outstanding have made written request to the Trustee to institute such proceeding, (iii) such holder or holders provide pre-funding, security and/or indemnity satisfactory to the Trustee and (iv) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Bonds then outstanding a direction inconsistent with such request, within 60 days after such notice, request and offer. However, such limitations do not apply to a suit instituted by a holder of a Bond for the enforcement of the right to receive payment of the principal of, premium (if any) or interest on such Bond on or after the applicable due date specified in such Bond.

Defeasance and Covenant Defeasance

The Indenture will provide that the Issuer and the Guarantor may at their option and at any time elect to have all of the Issuer's and Guarantor's obligations discharged with respect to the outstanding Bonds and the Guarantee ("Defeasance") except for:

(1) the rights of holders of the Bonds that are then outstanding to receive payments in respect of the principal of, or interest or premium on such Bonds (and any Additional Amounts payable in respect thereof) when such payments are due, or on the redemption date or Triggering Event Payment Date from the trust referred to below;

(2) certain of the Issuer's obligations with respect to the issue, execution, form and registration of the Bonds including those concerning issuing temporary Bonds, registration of Bonds, mutilated, destroyed, lost or stolen Bonds and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee for the Bonds, and the Issuer's and the Guarantor's obligations in connection therewith; and

(4) the Defeasance and Covenant Defeasance (as defined below) provisions of the Indenture for the Bonds and the Guarantee.

The Indenture will provide that, the Issuer and the Guarantor may, at their option and at any time, elect to have the Issuer's and Guarantor's obligations with respect to the outstanding Bonds and related Guarantee discharged with respect to certain covenants (including their obligations under "– Consolidation, Merger and Sale of Assets" and "– Reports") that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default. In the event Covenant Defeasance occurs, events (v) and (vi) described under the caption "– Events of Default" will no longer constitute an Event of Default.

The Indenture will also provide that, in order to exercise either Defeasance or Covenant Defeasance:

(1) the Issuer or the Guarantor shall elect by resolution of its board of directors to authorize a Defeasance or a Covenant Defeasance with respect to the outstanding Bonds;

(2) the Issuer or the Guarantor must irrevocably deposit with the Trustee or the Paying Agent, in trust, for the benefit of the holders of all Bonds subject to Defeasance or Covenant Defeasance, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium on such Bonds that are then outstanding on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer or the Guarantor must specify whether such Bonds are being defeased to maturity or to a particular redemption date;

(3) in the event of a Defeasance, the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that (a) the Issuer or the Guarantor have received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of external legal counsel will confirm that, the beneficial owners of the then outstanding Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Defeasance had not occurred;

(4) in the event of a Covenant Defeasance, the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that the beneficial owners of the then outstanding Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(5) no Default or Event of Default with respect to the Bonds must have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(6) the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an officer's certificate stating that the deposit was not made by the Issuer or the Guarantor with the intent of preferring the holders of Bonds over other creditors of the Issuer or the Guarantor with the intent of defeating, hindering, delaying or defrauding such creditors or others; and

(7) the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an officer's certificate and an opinion of external legal counsel, each stating that all conditions precedent relating to the Defeasance or the Covenant Defeasance have been complied with.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect with respect to Bonds when:

(1) either:

(a) all Bonds that have been authenticated, except lost, stolen or destroyed Bonds that have been replaced or paid and Bonds for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Paying Agent for cancelation; or

(b) all Bonds that have not been delivered to the Paying Agent for cancelation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee or the Paying Agent as trust funds in trust solely for the benefit of the holders of the Bonds, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient (in the case of a deposit not entirely in cash, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants), without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on such Bonds not delivered to the Paying Agent for cancelation for principal, premium and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default under the Indenture has occurred and is continuing with respect to the Bonds on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or the Guarantor is a party or by which the Issuer or the Guarantor is bound;

(3) the Issuer has paid or caused to be paid all sums payable by it under the Indenture with respect to the Bonds; and

(4) the Issuer has delivered irrevocable instructions to the Trustee or the Paying Agent (as the case may be) under the Indenture to apply the deposited money toward the payment of the Bonds at maturity or the redemption date, as the case may be.

In addition, the Issuer shall deliver an officer's certificate and an opinion of external legal counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

No Sinking Fund

The Bonds will not be subject to, nor entitled to the benefit of, any sinking fund.

Book-Entry, Delivery and Form

The Bonds will be represented by one or more global bonds that will be deposited with and registered in the name of DTC or its nominee for the accounts of its participants, including Euroclear Bank SA/NV ("Euroclear") as operator of the Euroclear System, and Clearstream Banking S.A. ("Clearstream"). The Issuer will not issue certificated Bonds, except in the limited circumstances described below. Transfers of ownership interests in the global bonds will be effected only through entries made on the books of DTC participants acting on behalf of beneficial owners. You will not receive written confirmation from DTC of your purchase. The direct or indirect participants through whom you purchased the Bonds should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The direct and indirect participants are responsible for keeping accurate account of the holdings of their customers like you. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the global bonds.

You, as the beneficial owner of Bonds, will not receive certificates representing ownership interests in the global bonds, except in the following limited circumstances: (1) DTC notifies the Issuer that it is unwilling or unable to continue as depositary or if DTC ceases to be eligible under the Indenture and the Issuer does not appoint a successor depositary within 90 days; or (2) an event of default with respect to the Bonds will have occurred and be continuing. These certificated Bonds will be registered in such name or names as DTC will instruct the Trustee. It is expected that such instructions may be based upon directions received by DTC from participants with respect to ownership of beneficial interests in global bonds.

So long as DTC or its nominee is the registered owner and holder of the global bonds, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the Bonds represented by the global bonds for all purposes under the Indenture relating to the Bonds. Except as provided above, you, as the beneficial owner of interests in the global bonds, will not be entitled to have Bonds registered in your name, will not receive or be entitled to receive physical delivery of Bonds in definitive form and will not be considered the owner or holder thereof under the Indenture. Accordingly, you, as the beneficial owner, must rely on the procedures of DTC and, if you are not a DTC participant, on the procedures of the DTC participants through which you own your interest, to exercise any rights of a holder under the Indenture.

Neither the Issuer, the Guarantor, the Trustee, nor any other agent of the Issuer or the Guarantor or agent of the Trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in global bonds or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests. DTC's practice is to credit the accounts of DTC' s direct participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interest in a security as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payment date. The initial purchasers will initially designate the accounts to be credited. Beneficial owners may experience delays in receiving distributions on their Bonds because distributions will initially be made to DTC and they must be transferred through the chain of intermediaries to the beneficial owner's account. Payments by DTC participants to you will be the responsibility of the DTC participant and not of DTC, the Trustee, any agent or us. Accordingly, the Issuer, the Guarantor, the Trustee and any Paying Agent will have no responsibility or liability for: any aspect of DTC' s records relating to, or payments made on account of, beneficial ownership interests in the Bonds represented by a global securities certificate; any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a global securities certificate held through those participants; or the maintenance, supervision or review of any of DTC' s records relating to those beneficial ownership interests.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer has been informed that, under DTC's existing practices, if the Issuer or the Guarantor requests any action of holders of Bonds, or an owner of a beneficial interest in a global security such as you desires to take any action which a holder of the Bonds is entitled to take under the Indenture, DTC would authorize the direct participants holding the relevant beneficial interests to take such action, and those direct participants and any indirect participants would authorize beneficial owners owning through those direct and indirect participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Clearstream and Euroclear have provided the Issuer and the Guarantor with the following information:

Clearstream

Clearstream is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream participants include underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Clearstream's U.S. participants are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to the Bonds held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. depositary for Clearstream.

Euroclear

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear performs various other services, including securities lending and borrowing and interacts with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV under contract with Euroclear plc, a U.K. corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is a Belgian bank. As such it is regulated by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the U.S. depositary for Euroclear.

Euroclear has further advised us that investors who acquire, hold and transfer interests in the Bonds by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities certificates.

Global Clearance and Settlement Procedures

Initial settlement for the Bonds will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC' s Same Day Funds Settlement System. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Bonds through DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to their respective U.S. depositaries.

Because of time zone differences, credits of the Bonds received through Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Bonds settled during such processing will be reported to the relevant Euroclear participants or Clearstream participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of the Bonds by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Bonds among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither the Issuer, the Guarantor nor the Trustee nor the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants of their obligations under the rules and procedures governing their operations.

Concerning the Trustee and Agents

The Trustee under the Indenture is Citicorp International Limited. Pursuant to the Indenture, Citibank, N.A., London Branch will be designated by the Issuer as the initial paying agent, transfer agent and registrar for the Bonds. The corporate trust office of the Trustee is currently located at 20th floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The Indenture provides that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Bonds, and no implied covenants or obligations will be read into the Indenture, the Bonds, or the agent appointment letter against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. Pursuant to the terms of the Indenture or the Bonds (as the case may be), the Issuer will reimburse the Trustee for all expenses incurred. Each holder of the Bonds, by accepting the Bonds, will agree for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the Bonds and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Whenever the Trustee shall have discretion or permissive power in accordance with the Indenture, the Bonds or under applicable law, the Trustee may decline to exercise the same in the absence of approvals by the holders and shall have no obligation to exercise the same unless it receives written instructions from holders and has received pre-funding, been indemnified and/or secured to its satisfaction against all actions, proceedings, claims, actions or demands to which it may render itself liable and all costs, damages, charges, expenses and liabilities which it may incur by so doing. The Trustee in its various capacities shall in no event be responsible for special, indirect, incidental, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of business, goodwill, opportunity or profit), whether or not foreseeable, irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Subject to the terms of the Indenture, the Trustee is permitted to engage in other transactions with the Issuer, the Guarantor and their respective affiliates and can profit therefrom without being obliged to account for such profit; and the Trustee shall not be under any obligation to monitor any conflict of interest which may arise between itself and such other parties. The Trustee may have an interest in, or may be providing, or may in the future provide financial or other services to other parties.

Currency Indemnity

To the fullest extent permitted by law, the Issuer's obligations to any holder of Bonds under the Indenture or the Bonds and the Guarantor's obligations under the Guarantee, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Issuer and Guarantor agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for their respective account such excess, *provided* that such holder shall not have any obligation to pay any such excess as long as a default by the Issuer or the Guarantor in their respective obligations under the Indenture, the Bonds and the Guarantee has occurred and is continuing, in which case such excess may be applied by such holder to such obligations.

Notices

Notices to holders of Bonds will be sufficiently given (unless otherwise expressly provided in the Indenture) to them (or the first named of joint holders) if in writing and delivered in person, sent electronically or mailed, first-class postage (or if first-class mail is unavailable, by airmail) prepaid at their respective addresses in the register.

Governing Law and Consent to Jurisdiction

The Indenture, the Bonds and the Guarantee will be governed by and will be construed in accordance with the laws of the State of New York. The Issuer and the Guarantor have agreed that any action arising out of or based upon the Indenture may be instituted in any U.S. federal or New York State court located in the Borough of Manhattan, The City of New York, and have irrevocably submitted to the non-exclusive jurisdiction of any such court in any such action. The Issuer and the Guarantor have appointed Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, NY 10017, as their agent upon which process may be served in any such action.

The Issuer and the Guarantor have agreed that, to the extent that the Issuer and the Guarantor are or become entitled to any sovereign or other immunity, they will waive such immunity in respect of their obligations under the Indenture.

Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

"Business Day" means a day other than a Saturday, Sunday or a day on which banking institutions or trust companies in The City of New York, Hong Kong or Beijing are authorized or obligated by law, regulation or executive order to remain closed.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Shares and limited liability or partnership interests (whether general or limited), but excluding any notes convertible or exchangeable into such equity.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the Issuer obtains fewer than three such Reference Treasury Dealer Quotations, the average of all quotations obtained.

"Consolidated Affiliated Entity" of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under International Accounting Standards 27, Consolidated and Separate Financials Statements (including any changes, amendments or supplements thereto) or, if such person prepares its financial statements in accordance with accounting principles other than IFRS, the equivalent of International Accounting Standards 27, Consolidated and Separate Financial Statements under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Guarantor.

"Controlled Entity" of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person.

"Default" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"Exchange Act" means the Securities Exchange Act of 1934.

"Group" means the Guarantor and its Controlled Entities.

"holder" in relation to a Bond, means the Person in whose name such Bond is registered in the security register for the registration and the registration of transfer or of exchange of the securities.

"IFRS" refers to International Financial Reporting Standards.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Issuer.

"Lien" means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

"Non-listed Controlled Entities" means the Controlled Entities other than (i) any Controlled Entities with shares of common stock or other common equity interests listed on a nationally recognized stock exchange, including but not limited to the Shanghai Stock Exchange; and (ii) any Subsidiaries or Consolidated Affiliated Entities of any Controlled Entity referred to in clause (i) of this definition.

"Non-recourse Obligation" means indebtedness or other obligations substantially related to (i) the acquisition of assets (including any person that becomes a Controlled Entity) not previously owned by the Issuer, the Guarantor or any of the Guarantor's Controlled Entities or (ii) the financing of a project involving the purchase, development, improvement or expansion of properties of the Issuer, the Guarantor or any of the Guarantor's Controlled Entities, as to which the obligee with respect to such indebtedness or obligation has no recourse to the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or to the Issuer, the Guarantor or any such Principal Controlled Entity's assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

"Original Issue Date" means the date on which the Bonds are originally issued under the Indenture.

"Person" means any individual, corporation, firm, limited liability company, partnership, joint venture, undertaking, association, joint stock company, trust, unincorporated organization, trust, state, government or any agency or political subdivision thereof or any other entity (in each case whether or not being a separate legal entity).

"PRC" means the People's Republic of China, excluding, for purposes of this definition, the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

"Preferred Shares" as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends upon liquidation, dissolution or winding up.

"Principal Controlled Entities" at any time shall mean one of the Guarantor's Non-Listed Controlled Entities

(i) as to which one or more of the following conditions is/are satisfied:

(a) its total revenue or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated total revenue attributable to the Guarantor is at least 10% of the Guarantor's consolidated total revenue;

(b) its net profit or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor's consolidated net profit (before taxation and exceptional items); or

(c) its net assets or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Non-Listed Controlled Entity and the Guarantor's then latest audited consolidated financial statements;

provided that, in relation to paragraphs (a), (b) and (c) above:

(1) in the case of a corporation or other business entity becoming a Non-Listed Controlled Entity after the end of the financial period to which the Guarantor's latest consolidated audited accounts relate, the reference to the Guarantor's then latest consolidated audited accounts and the Guarantor's Non-Listed Controlled Entities for the purposes of the calculation above shall, until the Guarantor's consolidated audited accounts for the financial period in which the relevant corporation or other business entity becomes a Non-Listed Controlled Entity are issued, be deemed to be a reference to the then latest consolidated

audited accounts of the Guarantor and its Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities) of such Controlled Entity in such accounts;

(2) if at any relevant time in relation to the Guarantor or any Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net profit or net assets of the Guarantor and/or any such Non-Listed Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Guarantor;

(3) if at any relevant time in relation to any Non-Listed Controlled Entity, no accounts are audited, its total revenue, net profit or net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Non-Listed Controlled Entity prepared for this purpose by or on behalf of the Guarantor; and

(4) if the accounts of any Non-Listed Controlled Entity (not being a Non-Listed Controlled Entity referred to in proviso (1) above) are not consolidated with the Guarantor's consolidated accounts, then the determination of whether or not such Non-Listed Controlled Entity is a Principal Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the Guarantor's consolidated accounts (determined on the basis of the foregoing); or

(ii) to which is transferred all or substantially all of the assets and undertakings of a Non-Listed Controlled Entity which immediately prior to the transfer was a Principal Controlled Entity; *provided* that, with effect from such transfer, the Non-Listed Controlled Entity which so transfers its assets and undertakings shall cease to be a Principal Controlled Entity (but without prejudice to paragraph (i) above) and the Non-Listed Controlled Entity to which the assets are so transferred shall become a Principal Controlled Entity.

An officer's certificate of the Guarantor delivered to the Trustee certifying in good faith as to whether or not a Non-Listed Controlled Entity is a Principal Controlled Entity shall be conclusive in the absence of manifest error and the Trustee shall be entitled to rely conclusively upon such officer's certificate (without further investigation or enquiry) and shall not be liable to any person for so accepting and relying on such officer's certificate.

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by the Issuer in good faith.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Issuer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the fifth Business Day before such redemption date.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Stated Maturity" means, when used with respect to any Bond or any installment of interest thereon, the date specified in such Bond as the fixed date on which the principal (or any portion thereof) of or premium, if any, on such Bond or such installment of interest is due and payable.

"Subsidiary" of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (b) any partnership, joint venture, limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), voting at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Guarantor.

"Total Equity" as of any date, means the total equity attributable to shareholders of the Guarantor on a consolidated basis determined in accordance with IFRS, as shown on the Guarantor's consolidated balance sheet for the most recent fiscal quarter.

"Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the fifth Business Day before such redemption date) of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Triggering Event" means (A) any change in or amendment to the laws, regulations and rules of the PRC or the official interpretation or official application thereof ("Change in Law") that results in (x) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the Guarantor's consolidated financial statements for the most recent fiscal quarter and (y) the Guarantor being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in its consolidated financial statements for the most recent fiscal quarter and (B) the Guarantor has not furnished to the Trustee, prior to the date that is twelve months after the date of the Change in Law, an opinion from an independent financial advisor or external legal counsel stating either (1) the Guarantor is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in its consolidated financial statements for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganization plan of the Guarantor) or (2) such Change in Law would not materially adversely affect the Issuer's and the Guarantor's ability to make principal, premium (if any) and interest payments on the Bonds when due.

The definition of Triggering Event includes a phrase relating to operating "substantially all" or deriving "substantially all" of the economic benefits from, the business operations conducted by the Group. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the applicability of the requirement that the Issuer offers to repurchase the Bonds as a result of a Triggering Event may be uncertain.

"U.S. Government Obligations" means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

DESCRIPTION OF THE 2051 BONDS

The 2051 Bonds are to be issued under an indenture (the "2051 Bonds Indenture") to be executed among Xiaomi Best Time International Limited (the "Issuer"), Xiaomi Corporation (the "Guarantor") and Citicorp International Limited, as trustee (the "Trustee"). Copies of the 2051 Bonds, the relevant Guarantee (as defined below) and the 2051 Bonds Indenture will be available for inspection during normal business hours at the corporate trust office of the Trustee. The following summary of the material terms of the 2051 Bonds, the relevant Guarantee and the 2051 Bonds Indenture does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the 2051 Bonds Indenture, including definitions of specified terms used in therein. We urge you to read the 2051 Bonds Indenture because it, and not this description, defines your rights as a beneficial holder of the 2051 Bonds. Holders are deemed to have notice of all the provisions of the 2051 Bonds Indenture and the Guarantee applicable to them.

In this description, references to the "Guarantor" mean Xiaomi Corporation only and do not include any of our Subsidiaries or Consolidated Affiliated Entities; references to the "Bonds" mean the 2051 Bonds only, the "Guarantee" mean the Guarantee in respect of the 2051 Bonds; and references to the "Indenture" mean the 2051 Bonds Indenture.

General

The Bonds will initially be issued in an aggregate principal amount of US$400,000,000 and will mature on July 14, 2051, unless they are redeemed prior to the maturity pursuant to the Indenture and the terms thereof. The Bonds will bear interest at the rate of 4.100% per annum. Interest on the Bonds will accrue from July 14, 2021 and will be payable semi-annually in arrears on January 14 and July 14 of each year, beginning on January 14, 2022, to the persons in whose names the Bonds are registered at the close of business on the preceding December 30 and June 29, respectively, which are referred to as the record dates. At maturity, the Bonds are payable at their principal amount plus accrued and unpaid interest thereon. In any case where the payment of principal of, premium (if any) or interest on the Bonds is due on a date that is not a Business Day, then payment of principal of, premium (if any) or interest on the Bonds, as the case may be, shall be made on the next succeeding Business Day and no interest shall accrue with respect to such payment for the period from and after such date that is not a Business Day to such next succeeding Business Day. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Bonds shall be denominated in minimum principal amounts of US$200,000 and in integral multiples of US$1,000 in excess thereof. The Bonds will only be issued in registered form.

Payments on the Bonds; Paying Agent and Registrar

The principal of, premium, if any, interest on, and all other amounts payable under, the Bonds are payable, and the Bonds may be exchanged or transferred, at the office or agency of the Issuer in the Borough of Manhattan, the City of New York or at such other location or locations as the Issuer, in consultation with the Trustee, may designate. The principal of and interest on the Bonds shall be made by wire transfer or otherwise in immediately available and cleared funds and payable in U.S. dollars or in such other coin or currency of the United States of America as of the time of payment is legal tender for the payment of public and private debts. Payments of interest and principal with respect to interests in the Bonds will be credited to the respective accounts of the holders of such interests with DTC or its participants, including Euroclear and Clearstream; *provided* that, at the option and expenses of the Issuer, payment of interest may be made by wire transfer to the registered account of the person entitled thereto details of which appear in the register. Any payments of principal of, premium, if any, and interest on the Bonds to be made on a date that is not a Business Day need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on such date, and no additional interest shall accrue as a result of such delayed payment.

The Issuer has initially designated Citibank, N.A., London Branch to act as its paying agent (the "Paying Agent"), transfer agent (the "Transfer Agent") and registrar (the "Registrar"). The Paying Agent, Transfer

Agent and Registrar are each referred to as an "Agent," and together, the "Agents." The Issuer may, however, change the Paying Agent, Transfer Agent or Registrar without prior notice to the holders of the Bonds.

Payment of the principal of, premium, if any, and interest on the Bonds held through the DTC will be credited to the respective accounts of the holders of the Bonds with DTC or its participants, including Euroclear and Clearstream. See "– Book-Entry, Delivery and Form."

Ranking

The Bonds will constitute senior unsecured obligations of the Issuer. The Bonds will rank senior in right of payment to all of the Issuer's existing and future obligations expressly subordinated in right of payment to the Bonds and rank at least equal in right of payment with all of the Issuer's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Bonds will be effectively subordinated to all of the Issuer's existing and future secured obligations, to the extent of the value of the assets serving as security therefor.

Guarantee

The Guarantor will unconditionally and irrevocably guarantee (the "Guarantee") to each holder of a Bond authenticated and delivered by the Trustee the due and punctual payment of all amounts due, including principal, premium (if any) and interest, on such Bond (and any Additional Amounts (as defined in "– Additional Amounts") payable in respect thereof), when and as the same shall become due and payable, whether at the stated maturity, by declaration of acceleration, by call for redemption, repurchase or otherwise, in each case in accordance with the terms of such Bond and of the Indenture. The Guarantee will constitute a direct, unconditional, senior and unsecured obligation of the Guarantor. The payment obligations of the Guarantor under the Guarantee will rank senior in right of payment to all of the Guarantor's existing and future obligations expressly subordinated in right of payment to the Guarantee and rank at least equal in right of payment with all of the Guarantor's existing and future unsecured and unsubordinated obligations (subject to any priority rights pursuant to applicable law). However, the Guarantee will be effectively subordinated to all the Guarantor's present and future secured obligations to the extent of the value of the collateral securing such obligations, and be structurally subordinated to all the present and future obligations (whether secured or unsecured) of its Subsidiaries and Consolidated Affiliated Entities.

Issuance of Additional Bonds

The Issuer may, from time to time, without the consent of the holders of the Bonds, issue additional bonds having the same terms and conditions as the previously outstanding Bonds in all respects (or in all respects except for the issue date, the issue price and the first payment of interest) (the "Additional Bonds"). Additional Bonds issued in this manner may be consolidated with and form a single series with the previously outstanding Bonds, *provided* that such Additional Bonds must not have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Bonds unless such Additional Bonds are fungible with the outstanding Bonds for U.S. federal income tax purposes.

Optional Redemption

The Issuer may, at the Issuer's or the Guarantor's option, at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Bonds (which notice shall be irrevocable), redeem the Bonds prior to January 14, 2051, in whole or in part, at a redemption amount equal to the greater of:

- 100% of the principal amount of the Bonds to be redeemed; and

- the make-whole amount, which means the amount determined on the fifth Business Day before the redemption date equal to the sum of (i) the present value of the principal amount of the Bonds to be redeemed, assuming a scheduled repayment thereof on the stated maturity date, plus (ii) the present value of the remaining scheduled payments of interest to and including the stated maturity date, in each case discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months and, in the case of an incomplete month, the actual number of days elapsed) at the Treasury Yield plus 35 basis points,

plus, in each case, accrued and unpaid interest on the Bonds to be redeemed, if any, to, but not including, the redemption date; *provided* that the principal amount of a Bond remaining outstanding after redemption in part shall be US$200,000 or an integral multiple of US$1,000 in excess thereof. For the avoidance of doubt, neither the Trustee nor the Agents shall be responsible for calculating the make-whole amount.

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' written notice to holders of the Bonds, redeem the Bonds at any time on or after January 14, 2051, in whole or in part, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed plus accrued and unpaid interest, if any, to (but not including) the date of redemption; *provided* that the principal amount of a Bond remaining outstanding after redemption in part shall be US$200,000 or integral multiples of US$1,000 in excess thereof.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 but not more than 60 calendar days prior to the redemption date to each holder of the Bonds to be redeemed at its registered address. The notice of redemption for the Bonds will state, among other things, the redemption date, the redemption price and (if the Bonds are in certificated form) where such Bonds are to be surrendered for payment of the redemption price and the Bonds called for redemption must be surrendered to the Paying Agent to collect the redemption price. Unless the Issuer defaults in the payment of the redemption price, interest will cease to accrue on any Bonds that have been called for redemption on and after the redemption date. If less than all of the Bonds are to be redeemed, the Bonds for redemption will be selected as follows: (i) if the Bonds are listed on a securities exchange then in compliance with the rules of such securities exchange and if the Bonds are held through the clearing systems then in compliance with the rules and procedures of the clearing systems, or (ii) if the Bonds are not listed on a securities exchange or held through the clearing systems, then by lot or such other method as the Trustee shall deem to be fair and appropriate in its sole and absolute discretion or as otherwise required by applicable law.

Tax Redemption

The Issuer may redeem the Bonds at any time, at its or the Guarantor's option, in whole but not in part, upon written notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, if (i) as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction (as defined under "– Payment of Additional Amounts") (or, in the case of Additional Amounts payable by a Successor Entity (as defined under "– Certain Covenants – Consolidation, Merger and Sale of Assets"), the applicable Successor Jurisdiction (as defined under "– Payment of Additional Amounts")), or any change in the official application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the issue date of the Bonds (or, in the case of Additional Amounts payable by a Successor Entity, the date on which such Successor Entity became a Successor Entity pursuant to the applicable provisions of the Indenture) (a "Tax Change"), the Issuer, the Guarantor or any such Successor Entity is, or would be, obligated to pay Additional Amounts upon the next payment of principal, premium (if any) or interest in respect of such Bonds and (ii) such obligation cannot be avoided by the Issuer, the Guarantor, or any such Successor Entity taking reasonable measures available to it, *provided* that changing the Issuer, the Guarantor or such Successor Entity's jurisdiction is not a reasonable measure for purposes of this section.

Prior to the giving of any notice of redemption of the Bonds pursuant to the foregoing, the Issuer, the Guarantor or any such Successor Entity shall deliver to the Trustee (i) a notice of such redemption election, (ii) an opinion of external legal counsel or an opinion of an independent tax consultant to the effect that the Issuer, the Guarantor or any such Successor Entity is, or would become, obligated to pay such Additional Amounts as the result of a Tax Change and (iii) an officer's certificate from the Issuer, the Guarantor or any such Successor Entity, stating that such amendment or change has occurred, describing the facts leading thereto and stating that such requirement cannot be avoided by the Issuer, the Guarantor or any such Successor Entity taking reasonable measures available to it. The Trustee shall be entitled to rely conclusively upon such certificate and opinion as sufficient evidence of the conditions precedent described above, in which event it shall be conclusive and binding on the relevant holders.

Notice of redemption of the Bonds as provided above shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 calendar days prior to the redemption date to each holder of Bonds to be redeemed at its registered address; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer, the Guarantor or any such Successor Entity would be required to pay Additional Amounts if a payment in respect of such Bonds were then due. Notice having been given, the Bonds shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued and unpaid interest, if any, to, but not including, the date fixed for redemption, at the place or places of payment and in the manner specified in the Bonds. From and after the redemption date, if moneys for the redemption of such Bonds shall have been made available as provided in the Indenture for redemption on the redemption date, the Bonds shall cease to bear interest, and the only right of the holders of such Bonds shall be to receive payment of the redemption price and accrued and unpaid interest, if any, to, but not including, the date fixed for redemption.

Repurchase Upon Triggering Event

If a Triggering Event occurs, unless the Issuer has exercised the Issuer's or the Guarantor's right to redeem the Bonds as described under "– Tax Redemption" or under "– Optional Redemption" above, the Issuer will be required to make an offer to repurchase all or, at the holder's option, any part (equal to US$200,000 or integral multiples of US$1,000 in excess thereof, *provided* that the principal amount of any Bond remaining after partial redemption shall be US$200,000 or integral multiples of US$1,000 in excess thereof), of each holder's Bonds pursuant to the offer described below (the "Triggering Event Offer") on the terms set forth in the Indenture and the Bonds. In the Triggering Event Offer, the Issuer will be required to offer payment in cash equal to 101% of the aggregate principal amount of Bonds repurchased plus accrued and unpaid interest, if any, on the Bonds repurchased to, but not including, the date of purchase (the "Triggering Event Payment").

Within 30 days following a Triggering Event, the Issuer will be required to mail a notice to holders of the Bonds, with a copy to the Trustee and the Paying Agent, describing the transaction or transactions that constitute the Triggering Event and offering to repurchase the Bonds on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the "Triggering Event Payment Date"), pursuant to the procedures required by the Bonds and described in such notice.

On the Triggering Event Payment Date, the Issuer will be required, to the extent lawful, to:

- accept for payment all Bonds or portions of Bonds properly tendered pursuant to the Triggering Event Offer;

- deposit with the relevant Paying Agent one Business Day prior to the Triggering Event Payment Date an amount of cash in U.S. dollars equal to the Triggering Event Payment in respect of all Bonds or portions of Bonds properly tendered; and

- deliver or cause to be delivered to the Trustee the Bonds properly accepted together with an officer's certificate stating the aggregate principal amount of Bonds or portions of Bonds being purchased by the Issuer.

The Paying Agent will be required to promptly mail, to each holder who properly tendered the Bonds, the purchase price for such Bonds properly tendered, and the Trustee or an authenticating agent will be required to promptly authenticate and mail (or cause to be transferred by book-entry) to each such holder a new Bond equal in principal amount to any unpurchased portion of the Bonds surrendered, if any; *provided* that each new Bond will be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof.

The Issuer will not be required to make a Triggering Event Offer upon a Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Issuer and such third party purchases all Bonds properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults on its offer, the Issuer will be required to make a Triggering Event Offer treating the date of such termination or default as though it were the date of the Triggering Event.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws and regulations thereunder in connection with the repurchase of the Bonds as a result of a Triggering Event. To the extent that the provision of any such securities laws or regulations conflicts with the Triggering Event Offer provisions of the Bonds, the Issuer will comply with those securities laws and regulations and will not be deemed to have breached its obligations under the Triggering Event Offer provisions of the Bonds by virtue of any such conflict.

There can be no assurance that the Issuer or the Guarantor will have sufficient funds available at the time of a Triggering Event to consummate a Triggering Event Offer for all Bonds then outstanding (or all Bonds properly tendered by the holders of such Bonds) and pay the Triggering Event Payment. The Issuer may also be prohibited by terms of other indebtedness or agreements from repurchasing the Bonds upon a Triggering Event, which would require the Issuer to repay the relevant indebtedness or terminate the relevant agreement before it can proceed with a Triggering Event Offer, and there can be no assurance that it will be able to effect such repayment or termination.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Triggering Event or any event which could lead to a Triggering Event has occurred and shall not be liable to any persons for any failure to do so.

Payment of Additional Amounts

All payments of principal, premium (if any) and interest made in respect of the Bonds or under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("Taxes") imposed or levied by or within the Cayman Islands, Hong Kong, the PRC or any jurisdiction where the Issuer, the Guarantor or the Paying Agent are otherwise considered by a taxing authority to be a resident for tax purposes (in each case, including any political subdivision or any authority therein or thereof having power to tax) (the "Relevant Jurisdiction"), unless such withholding or deduction of such Taxes is required by law. If such withholding or deduction is so required, the Issuer or the Guarantor will pay such additional amounts ("Additional Amounts") as will result in receipt by each holder of any Bonds of such amounts as would have been received by such holder had no such withholding or deduction of such Taxes been required, except that no such Additional Amounts shall be payable:

(i) in respect of any such Taxes that would not have been imposed, deducted or withheld but for the existence of any connection (whether present or former) between the holder or beneficial owner of a Bond and the Relevant Jurisdiction other than merely holding such Bond or receiving principal, premium (if any) or interest in respect thereof (including such holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein);

(ii) in respect of any Bond presented for payment (where presentation is required) more than 30 days after the relevant date, except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the last day of such 30-day period. For this purpose, the "relevant date" in relation to any Bond means the later of (a) the due date for such payment or (b) the date such payment was made or duly provided for;

(iii) in respect of any Taxes that would not have been imposed, deducted or withheld but for a failure of the holder or beneficial owner of a Bond to comply with a timely request by the Issuer or the

Guarantor addressed to the holder or beneficial owner to provide information concerning such holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax laws of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such holder;

(iv) in respect of any Taxes imposed as a result of a Bond being presented for payment (where presentation is required) in the Relevant Jurisdiction, unless such Bond could not have been presented for payment elsewhere;

(v) in respect of any estate, inheritance, gift, sale, transfer, personal property or similar Taxes, assessment or other similar governmental charge;

(vi) to any holder of a Bond that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the holder thereof;

(vii) with respect to any withholding or deduction that is imposed in connection with Sections 1471-1474 of the Internal Revenue Code of 1986, as amended, and U.S. Treasury regulations thereunder ("FATCA"), any intergovernmental agreement between the United States and any other jurisdiction implementing or relating to FATCA or any non-U.S. law, regulation or guidance enacted or issued with respect thereto;

(viii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Bond or Guarantee; or

(ix) any combination of Taxes referred to in the preceding items (i) through (viii) above.

In the event that any withholding or deduction for or on account of any Taxes is required and Additional Amounts are payable with respect thereto, at least 10 Business Days prior to each date of payment of principal of, premium (if any) or interest on the Bonds, the Issuer (or the Guarantor) will furnish to the Trustee and the Paying Agent, if other than the Trustee, an officer's certificate specifying the amount required to be withheld or deducted on such payments to such holders, certifying that the Issuer shall pay such amounts required to be withheld to the appropriate governmental authority and certifying to the fact that the Additional Amounts will be payable and the amounts so payable to each holder, and that the Issuer will pay to the Trustee or such Paying Agent the Additional Amounts required to be paid; *provided* that no such officer's certificate will be required prior to any date of payment of principal of, premium (if any) or interest on such Bonds if there has been no change with respect to the matters set forth in a prior officer's certificate. The Trustee and each Paying Agent shall be entitled to rely on the fact that any officer's certificate contemplated by this paragraph has not been furnished as evidence of the fact that no withholding or deduction for or on account of any Taxes is required. The Issuer and the Guarantor covenant to indemnify the Trustee and any Agent for and to hold them harmless against any loss, liability or properly incurred expense without fraudulent activity, gross negligence or wilful misconduct on their part arising out of or in connection with actions taken or omitted by any of them in reliance on any such officer's certificate furnished pursuant to this paragraph or on the fact that any officer's certificate contemplated by this paragraph has not been furnished.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Bond, such mention shall be deemed to include the payment of Additional Amounts provided for in the Indenture, to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

The foregoing provisions shall apply in the same manner with respect to the jurisdiction in which any Successor Entity or its Paying Agent is organized or resident for tax purposes or any authority therein or thereof having the power to tax (a "Successor Jurisdiction"), substituting such Successor Jurisdiction for the Relevant Jurisdiction.

The Issuer's (or the Guarantor's) obligation to make payments of Additional Amounts under the terms and conditions described above will survive any termination, defeasance or discharge of the Indenture.

Open Market Purchases

The Issuer, the Guarantor or any of its Controlled Entities may, in accordance with all applicable laws and regulations, at any time purchase the Bonds issued under the Indenture in the open market or otherwise at any price, so long as such purchase does not otherwise violate the terms of the Indenture. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of its Controlled Entities, shall not be deemed to be outstanding for the purposes of determining whether the holders of the requisite principal amount of outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder.

Modification and Waiver

The Indenture contains provisions permitting the Issuer, the Guarantor and the Trustee, without the consent of the holders of the Bonds, to execute supplemental indentures for certain enumerated purposes in the Indenture and, with the consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding under the Indenture, to add, change, eliminate or modify in any way the provisions of the Indenture or any supplemental indentures or to change or modify in any manner the rights of the holders of such Bonds. The Issuer, the Guarantor and the Trustee may not, however, without the consent of each holder of the Bonds affected thereby:

(i) change the Stated Maturity of any Bond;

(ii) reduce the principal amount of, payments of interest on or stated time for payment of interest on any Bond;

(iii) release the Guarantor from its Guarantee;

(iv) change any obligation of the Issuer or the Guarantor to pay Additional Amounts with respect to any Bond;

(v) change the currency of payment of the principal of, premium (if any) or interest on any Bond;

(vi) impair the right to institute suit for the enforcement of any payment due on or with respect to any Bond;

(vii) reduce the above stated percentage of outstanding Bonds necessary to modify or amend the Indenture;

(viii) reduce the percentage of the aggregate principal amount of outstanding Bonds necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(ix) modify the provisions of the Indenture with respect to modification and waiver;

(x) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Bonds in a manner which adversely affects the holders of such Bonds;

(xi) reduce the amount of the premium payable upon the redemption or repurchase of the Bonds or change the time at which such Bonds may be redeemed or repurchased as described above under "– Tax Redemption"; or

(xii) reduce the amount of the premium payable upon the redemption or repurchase of the Bonds or change the time at which any such Bonds may be redeemed or repurchased as described above under

"– Optional Redemption", "– Tax Redemption" or "– Repurchase Upon Triggering Event" whether through an amendment or waiver of provisions in the covenants, definitions or otherwise (except through amendments to the definition of "Triggering Event").

The holders of not less than a majority in aggregate principal amount of the Bonds then outstanding may on behalf of all holders of the Bond waive any existing or past Default or Event of Default and its consequences under the Indenture, except a continuing Default or Event of Default (i) in the payment of principal of, premium (if any) or interest on (or Additional Amount payable in respect of), any Bond then outstanding, in which event the consent of all holders of the Bonds then outstanding affected thereby is required, or (ii) in respect of a covenant or provision which under the Indenture cannot be modified or amended without the consent of the holder of each Bond then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Bonds, whether or not they have given consent to such waivers, and on all future holders of the Bonds, whether or not notation of such waivers is made upon the Bonds. Any instrument given by or on behalf of any holder of a Bond in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Bond.

Notwithstanding the foregoing, without the consent of any holder of the Bond, the Issuer, the Guarantor and the Trustee may amend the Indenture and the relevant Bonds and Guarantee to, among other things:

(i) cure any ambiguity, omission, defect or inconsistency contained in the Indenture or in any supplemental indenture; *provided*, however, that such amendment does not materially and adversely affect the rights of holders;

(ii) evidence the succession of another corporation to the Issuer or the Guarantor, or successive successions, and the assumption by such successor of the covenants and obligations of the Issuer or the Guarantor contained in the Bonds or the Guarantee and in the Indenture or any supplemental indenture;

(iii) comply with the rules of any applicable depositary;

(iv) secure the Bonds;

(v) add to the covenants and agreements of the Issuer or the Guarantor, to be observed thereafter and during the period, if any, in such supplemental indenture or indentures expressed, and to add Events of Default, in each case for the protection or benefit of the holders of the Bonds, or to surrender any right or power therein conferred upon the Issuer or the Guarantor;

(vi) make any change in the Bonds that does not adversely affect the legal rights under the Indenture of any holder of such Bonds in any material respect;

(vii) evidence and provide for the acceptance of an appointment under the Indenture of a successor trustee; *provided* that the successor trustee is otherwise qualified and eligible to act as such under the terms thereof;

(viii) make any amendment to the provisions of the Indenture relating to the transfer and legending of Bonds as permitted by the Indenture, including, but not limited to, facilitating the issuance and administration of the Bonds or, if incurred in compliance with the Indenture, Additional Bonds; *provided*, however, that (A) compliance with the Indenture as so amended would not result in the Bonds being transferred in violation of any applicable securities law and (B) such amendment does not materially and adversely affect the rights of holders to transfer Bonds;

(ix) change or eliminate any of the provisions of the Indenture; *provided* that any such change or elimination shall become effective only when there is no outstanding Bond created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision and as to which such supplemental indenture would apply;

(x) add guarantors or co-obligors with respect to the Bonds;

(xi) establish the form and terms of Bonds as permitted under the Indenture, or to provide for the issuance of Additional Bonds in accordance with the limitations set forth in the Indenture, or to add to the conditions, limitations or restrictions on the authorized amount, terms or purposes of issue, authentication or delivery of the Bond, as therein set forth, or other conditions, limitations or restrictions thereafter to be observed; or

(xii) conform the text of the Indenture or the Bonds or Guarantee to any provision of this "Description of the 2051 Bonds" to the extent that such provision in this "Description of the 2051 Bonds" was intended to be a verbatim recitation of a provision of the Indenture, the Bonds or the Guarantee as evidenced by an officer's certificate.

The consent of the holders is not necessary under the Indenture to approve the particular form of any proposed amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed amendment, supplement or waiver. A consent to any amendment, supplement or waiver under the Indenture by any holder given in connection with a tender of such holder's Bonds will not be rendered invalid by such tender. After an amendment, supplement or waiver under the Indenture becomes effective, the Issuer is required to give to the holders a notice briefly describing such amendment, supplement or waiver. However, the failure to give such notice to all the holders, or any defect in such notice, will not impair or affect the validity of the amendment, supplement or waiver.

Limitation on Liens

So long as any Bond remains outstanding, the Guarantor will not create or have outstanding, and the Guarantor will ensure that none of its Principal Controlled Entities and the Issuer will create or have outstanding, any Lien upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) securing any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness either of the Issuer, the Guarantor, or of any of the Guarantor's Principal Controlled Entities, without (i) at the same time or prior thereto securing or guaranteeing the Bonds, as applicable, equally and ratably therewith (or in priority thereto) or (ii) providing such other security or guarantee for the Bonds as shall be approved by an act of the holders of the Bonds holding at least a majority of the principal amount of the Bonds then outstanding.

The foregoing restriction will not apply to:

(i) any Lien arising or already arisen automatically by operation of law which is timely discharged or disputed in good faith by appropriate proceedings;

(ii) any Lien in respect of the obligations of any Person which becomes a Principal Controlled Entity or which merges with or into the Guarantor or a Principal Controlled Entity after the date of the Indenture which is in existence at the date on which it becomes a Principal Controlled Entity of the Guarantor or merges with or into the Guarantor or a Principal Controlled Entity; *provided* that any such Lien was not incurred in anticipation of such acquisition or of such Person becoming a Principal Controlled Entity or being merged with or into the Guarantor or a Principal Controlled Entity;

(iii) any Lien created or outstanding in favor of the Issuer or the Guarantor;

(iv) any Lien in respect of Relevant Indebtedness of the Issuer, the Guarantor or any Principal Controlled Entity with respect to which the Issuer, the Guarantor or such Principal Controlled Entity has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Issuer, the Guarantor or such Principal Controlled Entity in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full);

(v) any Lien created in connection with Relevant Indebtedness of the Issuer, the Guarantor or any Principal Controlled Entity denominated in RMB and initially offered, marketed or issued primarily to Persons resident in the PRC;

(vi) any Lien created in connection with a project financed with, or created to secure, Non-recourse Obligations; or

(vii) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by the foregoing clause (ii) or (vi); *provided* that such Relevant Indebtedness is not increased beyond the principal amount thereof (together with the costs of such refinancing, extension, renewal or refunding) and is not secured by any additional property or assets.

Limitation on Ownership

While any Bond remains outstanding, the Guarantor will maintain 100% ownership of the Issuer.

The Guarantor will cause the Issuer to elect to be treated as its disregarded entity for U.S. federal income tax purposes effective as of the Original Issue Date, and neither the Issuer or the Guarantor will take any action that is inconsistent with the Issuer being treated as a disregarded entity for U.S. federal income tax purposes.

While any Bond issued by the Issuer remains outstanding, the Issuer shall not issue any debt instrument that is treated as equity for U.S. federal income tax purposes.

Consolidation, Merger and Sale of Assets

The Issuer may not consolidate with or merge into any other Person in a transaction in which the Issuer is not the surviving entity, or convey, transfer or lease its properties and assets (computed on a consolidated basis) substantially as an entirety to, any Person unless:

(i) any Person formed by such consolidation or into which the Issuer is merged or to whom the Issuer has conveyed, transferred or leased its properties and assets substantially as an entirety is the Guarantor or an entity 100% of the equity of which is directly owned by the Guarantor and that has elected to be treated as a disregarded entity for U.S. federal income tax purposes (a "Issuer Successor Entity") and such Issuer Successor Entity expressly assumes by indentures supplemental to the Indenture all of the Issuer's obligations under the Indenture and the Bonds, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;

(ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(iii) the Issuer has delivered to the Trustee an officer's certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indentures comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

The Guarantor may not consolidate with or merge into any other Person in a transaction in which the Guarantor is not the surviving entity, or convey, transfer or lease its properties and assets (computed on a consolidated basis) substantially as an entirety to, any Person unless:

(i) any Person formed by such consolidation or into which the Guarantor is merged or to whom the Guarantor has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation, partnership, trust or other entity validly existing under the laws of the Cayman Islands (a "Guarantor Successor Entity;" any Issuer Successor Entity or Guarantor Successor Entity is referred to as a "Successor Entity") and such Guarantor Successor Entity expressly assumes by indentures supplemental to the Indenture all of the Guarantor's obligations under the Indenture, the Bonds and the Guarantee, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes;

(ii) immediately after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(iii) the Guarantor has delivered to the Trustee an officer's certificate and an opinion of external legal counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indentures comply with the Indenture and that all conditions precedent therein provided for relating to such transaction have been complied with.

Reports

So long as any of the Bonds remain outstanding, the Guarantor will file with the Trustee and furnish to the holders of the Bonds upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with the Stock Exchange of Hong Kong or any other recognized exchange on which the Guarantor's Capital Stock are at any time listed for trading, true and correct copies of any financial or other report filed with such exchange; *provided* that if at any time the Capital Stock of the Guarantor ceases to be listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee and furnish to the holders of the Bonds in the English language:

(i) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Guarantor, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;

(ii) as soon as they are available, but in any event within 60 calendar days after the end of the second financial quarter of the Guarantor, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and

(iii) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Guarantor, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Guarantor together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor as at the end of, and the results of its operations for, the relevant quarterly period.

In addition, so long as any of the Bonds remains outstanding, as soon as possible and in any event within 10 calendar days after the Issuer or the Guarantor becomes aware of the occurrence thereof (or at any time within 14 days of any request in writing by the Trustee), written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officers' certificate of the Issuer or the Guarantor, as the case may be, setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

Furthermore, the Issuer and the Guarantor will agree that, during any period in which the Issuer and the Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Guarantor, as the case may be, will, upon request of any holder or beneficial owner of a Bond, supply to (i) any holder or beneficial owner of a Bond or (ii) a prospective purchaser of a Bond or a beneficial interest therein designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Payments for Consent

The Issuer and the Guarantor will not, and will not permit any of the Guarantor's Controlled Entities to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Bonds for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Bonds unless such consideration is offered to be paid and is paid to all holders of the Bonds that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or amendment.

NDRC Post-issue Filing

The Issuer will notify the Trustee if it does not file or cause to be filed with the National Development and Reform Commission of the PRC (the "NDRC") the requisite information and documents required to be filed with the NDRC within 10 PRC Business Days after the issue date of the Bonds in accordance with the Registration Certificate of Enterprise Foreign Debt Filing issued by the NDRC on February 9, 2021 and the Letter to Approve the Adjustment to the Registration Certificate of Enterprise Foreign Debt Filing issued by the NDRC on June 23, 2021, pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations issued by the NDRC on September 14, 2015 and any implementation rules as issued by the NDRC as in effect at such time (the "Post-Issuance Filing"). Such notification to the Trustee will be made within 10 PRC Business Days after such failure to complete the Post-Issuance Filing.

"PRC Business Day" means a day other than a Saturday, Sunday or a day on which banking institutions in the PRC are authorized or obligated by law, regulation or executive order to remain closed.

Events of Default

Under the terms of the Indenture, each of the following constitutes an Event of Default for the Bonds:

(i) failure to pay principal or premium in respect of any Bonds by the due date for such payment (whether at Stated Maturity or upon acceleration, repurchase, redemption or otherwise);

(ii) failure to pay interest on any Bonds within 30 days after the due date for such payment;

(iii) the Issuer or the Guarantor defaults in the performance of or breach its obligations under the "– Consolidation, Merger and Sale of Assets" covenant;

(iv) the Issuer or the Guarantor defaults in the performance of or breach any covenant or agreement in the Indenture or under the Bonds (other than a default specified in clause (i), (ii) or (iii) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the holders of 25% or more in aggregate principal amount of the Bonds;

(v) (1) there occurs with respect to any indebtedness of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities, whether such indebtedness now exists or shall hereafter be created, (A) an event of default that has resulted in the holder thereof declaring the principal of such indebtedness to be due and payable prior to its stated maturity or (B) a failure to make a payment of principal, interest or premium when due (after giving effect to the expiration of any applicable grace period therefor, a "Payment Default") and (2) the outstanding principal amount of such indebtedness, together with the outstanding principal amount of any other indebtedness of such Persons under which there has been a Payment Default or the maturity of which has been so accelerated, is equal to or exceeds the greater of (x) US$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Guarantor's Total Equity;

(vi) one or more final judgments or orders for the payment of money are rendered against the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities and are not paid or discharged, and there is a period of 90 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons (net of any amounts that the Group's insurance carriers have paid or agreed to pay with respect thereto under applicable policies) to exceed the greater of (x) US$100,000,000 (or the Dollar Equivalent thereof) and (y) 2.5% of the Guarantor's Total Equity, during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(vii) the entry by a court having jurisdiction in the premises of (i) a decree or order for relief in respect of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or (ii) a decree or order adjudging the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities bankrupt or insolvent, or approving as final and nonappealable a petition seeking reorganization, arrangement, adjustment, or composition of or in respect of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or of any substantial part of their respective property, or ordering the winding up or liquidation of their respective affairs (or any similar relief granted under any foreign laws), and in any such case the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive calendar days;

(viii) the commencement by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities of a voluntary case or proceeding under any applicable federal, state or foreign bankruptcy, insolvency or other similar law or of any other case or proceeding to be adjudicated bankrupt or insolvent, or the consent by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities to the entry of a decree or order for relief in respect of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law or the commencement of any bankruptcy or insolvency case or proceeding against the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities, or the filing by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities of a petition or answer or consent seeking reorganization or relief with respect to the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities under any applicable bankruptcy, insolvency or other similar law, or the consent by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator, or other similar official of the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or of any substantial part of their respective property pursuant to any such law, or the making by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities of a general assignment for the benefit of creditors in respect of any indebtedness as a result of an inability to pay such indebtedness as it becomes due, or the admission by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities in writing of their inability to pay the debts generally as they become due, or the taking of corporate action by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities that resolves to commence any such action; or

(ix) the Bonds, the Guarantee or the Indenture is or becomes or is claimed by the Issuer or the Guarantor to be unenforceable, invalid or ceases to be in full force and effect otherwise than is permitted by the Indenture.

However, a default under clause (iv) of the preceding paragraph will not constitute an Event of Default until the Trustee or the holders of 25% or more in aggregate principal amount of the then outstanding Bonds provide written notice to the Issuer or the Guarantor of the default and it does not cure such default within the time specified in clause (iv) of the preceding paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default described in clauses (vii) and (viii) above) shall occur and be continuing, either the Trustee (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) or the holders of at least 25% in aggregate principal amount of the Bonds then outstanding by written notice as provided in the Indenture may declare the unpaid principal amount of such Bonds and any accrued and unpaid interest thereon (and any Additional Amount payable in respect thereof) to be due and payable immediately upon receipt of such notice. If an Event of Default in clause (v) above shall occur, the declaration of acceleration of the Bonds shall be automatically annulled if the default triggering such Event of Default pursuant to clause (v) shall be remedied or cured by the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or waived by the holders of the relevant indebtedness within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Bonds would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium (if any) or interest on the Bonds that became due solely because of the acceleration of the Bonds, have been cured or waived. If an Event of Default in clauses (vii) and (viii) above shall occur, the unpaid principal amount of all the Bonds then outstanding and any accrued and unpaid interest thereon will automatically, and without any declaration or other action by the Trustee or any holder of such Bonds, become immediately due and payable.

After a declaration of acceleration but before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of at least a majority in aggregate principal amount of the Bonds then outstanding may, under certain circumstances, waive all past defaults and rescind and annul such acceleration if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all Events of Default, other than the non-payment of principal, premium, if any, or interest on such Bonds that became due solely because of the acceleration of such Bonds, have been cured or waived. For information as to waiver of defaults, see "– Modification and Waiver."

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of the trusts or powers vested in it by the Indenture at the request, order or direction of any of the holders of Bonds, unless such holders shall have offered to the Trustee pre-funding, security and/or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby. Subject to certain provisions, including those requiring pre-funding, security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Bonds then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. No holder of any Bond will have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture or the Bonds, or for the appointment of a receiver or a trustee, or for any other remedy thereunder, unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Bonds, (ii) the holders of at least 25% in aggregate principal amount of the Bonds then outstanding have made written request to the Trustee to institute such proceeding, (iii) such holder or holders provide pre-funding, security and/or indemnity satisfactory to the Trustee and (iv) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Bonds then outstanding a direction inconsistent with such request, within 60 days after such notice, request and offer. However, such limitations do not apply to a suit instituted by a holder of a Bond for the enforcement of the right to receive payment of the principal of, premium (if any) or interest on such Bond on or after the applicable due date specified in such Bond.

Defeasance and Covenant Defeasance

The Indenture will provide that the Issuer and the Guarantor may at their option and at any time elect to have all of the Issuer's and Guarantor's obligations discharged with respect to the outstanding Bonds and the Guarantee ("Defeasance") except for:

(1) the rights of holders of the Bonds that are then outstanding to receive payments in respect of the principal of, or interest or premium on such Bonds (and any Additional Amounts payable in respect thereof) when such payments are due, or on the redemption date or Triggering Event Payment Date from the trust referred to below;

(2) certain of the Issuer's obligations with respect to the issue, execution, form and registration of the Bonds including those concerning issuing temporary Bonds, registration of Bonds, mutilated, destroyed, lost or stolen Bonds and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee for the Bonds, and the Issuer's and the Guarantor's obligations in connection therewith; and

(4) the Defeasance and Covenant Defeasance (as defined below) provisions of the Indenture for the Bonds and the Guarantee.

The Indenture will provide that, the Issuer and the Guarantor may, at their option and at any time, elect to have the Issuer's and Guarantor's obligations with respect to the outstanding Bonds and related Guarantee discharged with respect to certain covenants (including their obligations under "– Consolidation, Merger and Sale of Assets" and "– Reports") that are described in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default. In the event Covenant Defeasance occurs, events (v) and (vi) described under the caption "– Events of Default" will no longer constitute an Event of Default.

The Indenture will also provide that, in order to exercise either Defeasance or Covenant Defeasance:

(1) the Issuer or the Guarantor shall elect by resolution of its board of directors to authorize a Defeasance or a Covenant Defeasance with respect to the outstanding Bonds;

(2) the Issuer or the Guarantor must irrevocably deposit with the Trustee or the Paying Agent, in trust, for the benefit of the holders of all Bonds subject to Defeasance or Covenant Defeasance, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants to pay the principal of, or interest and premium on such Bonds that are then outstanding on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer or the Guarantor must specify whether such Bonds are being defeased to maturity or to a particular redemption date;

(3) in the event of a Defeasance, the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that (a) the Issuer or the Guarantor have received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of external legal counsel will confirm that, the beneficial owners of the then outstanding Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Defeasance had not occurred;

(4) in the event of a Covenant Defeasance, the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an opinion of external legal counsel of recognized standing with respect to U.S. federal income tax matters that is acceptable to the Trustee confirming that the beneficial owners of the then outstanding Bonds will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(5) no Default or Event of Default with respect to the Bonds must have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(6) the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an officer's certificate stating that the deposit was not made by the Issuer or the Guarantor with the intent of preferring the holders of Bonds over other creditors of the Issuer or the Guarantor with the intent of defeating, hindering, delaying or defrauding such creditors or others; and

(7) the Issuer or the Guarantor, as the case may be, must deliver to the Trustee an officer's certificate and an opinion of external legal counsel, each stating that all conditions precedent relating to the Defeasance or the Covenant Defeasance have been complied with.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect with respect to Bonds when:

(1) either:

(a) all Bonds that have been authenticated, except lost, stolen or destroyed Bonds that have been replaced or paid and Bonds for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Paying Agent for cancelation; or

(b) all Bonds that have not been delivered to the Paying Agent for cancelation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Issuer has irrevocably deposited or caused to be deposited with the Trustee or the Paying Agent as trust funds in trust solely for the benefit of the holders of the Bonds, cash in U.S. dollars, U.S. Government Obligation, or a combination of cash in U.S. dollars and U.S. Government Obligation, in amounts as will be sufficient (in the case of a deposit not entirely in cash, in the opinion of an internationally recognized investment bank, appraisal firm or firm of independent public accountants), without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on such Bonds not delivered to the Paying Agent for cancelation for principal, premium and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default under the Indenture has occurred and is continuing with respect to the Bonds on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or the Guarantor is a party or by which the Issuer or the Guarantor is bound;

(3) the Issuer has paid or caused to be paid all sums payable by it under the Indenture with respect to the Bonds; and

(4) the Issuer has delivered irrevocable instructions to the Trustee or the Paying Agent (as the case may be) under the Indenture to apply the deposited money toward the payment of the Bonds at maturity or the redemption date, as the case may be.

In addition, the Issuer shall deliver an officer's certificate and an opinion of external legal counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

No Sinking Fund

The Bonds will not be subject to, nor entitled to the benefit of, any sinking fund.

Book-Entry, Delivery and Form

The Bonds will be represented by one or more global bonds that will be deposited with and registered in the name of DTC or its nominee for the accounts of its participants, including Euroclear Bank SA/NV ("Euroclear") as operator of the Euroclear System, and Clearstream Banking S.A. ("Clearstream"). The Issuer will not issue certificated Bonds, except in the limited circumstances described below. Transfers of ownership interests in the global bonds will be effected only through entries made on the books of DTC participants acting on behalf of beneficial owners. You will not receive written confirmation from DTC of your purchase. The direct or indirect participants through whom you purchased the Bonds should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The direct and indirect participants are responsible for keeping accurate account of the holdings of their customers like you. The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to own, transfer or pledge beneficial interests in the global bonds.

You, as the beneficial owner of Bonds, will not receive certificates representing ownership interests in the global bonds, except in the following limited circumstances: (1) DTC notifies the Issuer that it is unwilling or unable to continue as depositary or if DTC ceases to be eligible under the Indenture and the Issuer does not appoint a successor depositary within 90 days; or (2) an event of default with respect to the Bonds will have occurred and be continuing. These certificated Bonds will be registered in such name or names as DTC will instruct the Trustee. It is expected that such instructions may be based upon directions received by DTC from participants with respect to ownership of beneficial interests in global bonds.

So long as DTC or its nominee is the registered owner and holder of the global bonds, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the Bonds represented by the global bonds for all purposes under the Indenture relating to the Bonds. Except as provided above, you, as the beneficial owner of interests in the global bonds, will not be entitled to have Bonds registered in your name, will not receive or be entitled to receive physical delivery of Bonds in definitive form and will not be considered the owner or holder thereof under the Indenture. Accordingly, you, as the beneficial owner, must rely on the procedures of DTC and, if you are not a DTC participant, on the procedures of the DTC participants through which you own your interest, to exercise any rights of a holder under the Indenture.

Neither the Issuer, the Guarantor, the Trustee, nor any other agent of the Issuer or the Guarantor or agent of the Trustee will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in global bonds or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests. DTC's practice is to credit the accounts of DTC' s direct participants with payment in amounts proportionate to their respective holdings in principal amount of beneficial interest in a security as shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payment date. The initial purchasers will initially designate the accounts to be credited. Beneficial owners may experience delays in receiving distributions on their Bonds because distributions will initially be made to DTC and they must be transferred through the chain of intermediaries to the beneficial owner's account. Payments by DTC participants to you will be the responsibility of the DTC participant and not of DTC, the Trustee, any agent or us. Accordingly, the Issuer, the Guarantor, the Trustee and any Paying Agent will have no responsibility or liability for: any aspect of DTC' s records relating to, or payments made on account of, beneficial ownership interests in the Bonds represented by a global securities certificate; any other aspect of the relationship between DTC and its participants or the relationship between those participants and the owners of beneficial interests in a global securities certificate held through those participants; or the maintenance, supervision or review of any of DTC' s records relating to those beneficial ownership interests.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer has been informed that, under DTC's existing practices, if the Issuer or the Guarantor requests any action of holders of Bonds, or an owner of a beneficial interest in a global security such as you desires to take any action which a holder of the Bonds is entitled to take under the Indenture, DTC would authorize the direct participants holding the relevant beneficial interests to take such action, and those direct participants and any indirect participants would authorize beneficial owners owning through those direct and indirect participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Clearstream and Euroclear have provided the Issuer and the Guarantor with the following information:

Clearstream

Clearstream is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream participants include underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Clearstream's U.S. participants are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant either directly or indirectly.

Distributions with respect to the Bonds held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. depositary for Clearstream.

Euroclear

Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear performs various other services, including securities lending and borrowing and interacts with domestic markets in several countries. Euroclear is operated by Euroclear Bank SA/NV under contract with Euroclear plc, a U.K. corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator is a Belgian bank. As such it is regulated by the Belgian Banking and Finance Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by the U.S. depositary for Euroclear.

Euroclear has further advised us that investors who acquire, hold and transfer interests in the Bonds by book-entry through accounts with the Euroclear operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the global securities certificates.

Global Clearance and Settlement Procedures

Initial settlement for the Bonds will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds using DTC's Same Day Funds Settlement System. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Bonds through DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to their respective U.S. depositaries.

Because of time zone differences, credits of the Bonds received through Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Bonds settled during such processing will be reported to the relevant Euroclear participants or Clearstream participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of the Bonds by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of Bonds among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time. Neither the Issuer, the Guarantor nor the Trustee nor the Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective direct or indirect participants of their obligations under the rules and procedures governing their operations.

Concerning the Trustee and Agents

The Trustee under the Indenture is Citicorp International Limited. Pursuant to the Indenture, Citibank, N.A., London Branch will be designated by the Issuer as the initial paying agent, transfer agent and registrar for the Bonds. The corporate trust office of the Trustee is currently located at 20th floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The Indenture provides that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture or the Bonds, and no implied covenants or obligations will be read into the Indenture, the Bonds, or the agent appointment letter against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. Pursuant to the terms of the Indenture or the Bonds (as the case may be), the Issuer will reimburse the Trustee for all expenses incurred. Each holder of the Bonds, by accepting the Bonds, will agree for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of, and investigation into, all risks arising under or in connection with the Bonds and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Whenever the Trustee shall have discretion or permissive power in accordance with the Indenture, the Bonds or under applicable law, the Trustee may decline to exercise the same in the absence of approvals by the holders and shall have no obligation to exercise the same unless it receives written instructions from holders and has received pre-funding, been indemnified and/or secured to its satisfaction against all actions, proceedings, claims, actions or demands to which it may render itself liable and all costs, damages, charges, expenses and liabilities which it may incur by so doing. The Trustee in its various capacities shall in no event be responsible for special, indirect, incidental, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of business, goodwill, opportunity or profit), whether or not foreseeable, irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Subject to the terms of the Indenture, the Trustee is permitted to engage in other transactions with the Issuer, the Guarantor and their respective affiliates and can profit therefrom without being obliged to account for such profit; and the Trustee shall not be under any obligation to monitor any conflict of interest which may arise between itself and such other parties. The Trustee may have an interest in, or may be providing, or may in the future provide financial or other services to other parties.

Currency Indemnity

To the fullest extent permitted by law, the Issuer's obligations to any holder of Bonds under the Indenture or the Bonds and the Guarantor's obligations under the Guarantee, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Issuer and Guarantor agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for their respective account such excess, *provided* that such holder shall not have any obligation to pay any such excess as long as a default by the Issuer or the Guarantor in their respective obligations under the Indenture, the Bonds and the Guarantee has occurred and is continuing, in which case such excess may be applied by such holder to such obligations.

Notices

Notices to holders of Bonds will be sufficiently given (unless otherwise expressly provided in the Indenture) to them (or the first named of joint holders) if in writing and delivered in person, sent electronically or mailed, first-class postage (or if first-class mail is unavailable, by airmail) prepaid at their respective addresses in the register.

Governing Law and Consent to Jurisdiction

The Indenture, the Bonds and the Guarantee will be governed by and will be construed in accordance with the laws of the State of New York. The Issuer and the Guarantor have agreed that any action arising out of or based upon the Indenture may be instituted in any U.S. federal or New York State court located in the Borough of Manhattan, The City of New York, and have irrevocably submitted to the non-exclusive jurisdiction of any such court in any such action. The Issuer and the Guarantor have appointed Law Debenture Corporate Services Inc., located at 801 2nd Avenue, Suite 403, New York, NY 10017, as their agent upon which process may be served in any such action.

The Issuer and the Guarantor have agreed that, to the extent that the Issuer and the Guarantor are or become entitled to any sovereign or other immunity, they will waive such immunity in respect of their obligations under the Indenture.

Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

"Business Day" means a day other than a Saturday, Sunday or a day on which banking institutions or trust companies in The City of New York, Hong Kong or Beijing are authorized or obligated by law, regulation or executive order to remain closed.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Shares and limited liability or partnership interests (whether general or limited), but excluding any notes convertible or exchangeable into such equity.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (2) if the Issuer obtains fewer than three such Reference Treasury Dealer Quotations, the average of all quotations obtained.

"Consolidated Affiliated Entity" of any Person means any corporation, association or other entity which is or is required to be consolidated with such Person under International Accounting Standards 27, Consolidated and Separate Financials Statements (including any changes, amendments or supplements thereto) or, if such person prepares its financial statements in accordance with accounting principles other than IFRS, the equivalent of International Accounting Standards 27, Consolidated and Separate Financial Statements under such accounting principles. Unless otherwise specified herein, each reference to a Consolidated Affiliated Entity will refer to a Consolidated Affiliated Entity of the Guarantor.

"Controlled Entity" of any Person means a Subsidiary or a Consolidated Affiliated Entity of such Person.

"Default" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"Exchange Act" means the Securities Exchange Act of 1934.

"Group" means the Guarantor and its Controlled Entities.

"holder" in relation to a Bond, means the Person in whose name such Bond is registered in the security register for the registration and the registration of transfer or of exchange of the securities.

"IFRS" refers to International Financial Reporting Standards.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Issuer.

"Lien" means any mortgage, charge, pledge, lien or other form of encumbrance or security interest.

"Non-listed Controlled Entities" means the Controlled Entities other than (i) any Controlled Entities with shares of common stock or other common equity interests listed on a nationally recognized stock exchange, including but not limited to the Shanghai Stock Exchange; and (ii) any Subsidiaries or Consolidated Affiliated Entities of any Controlled Entity referred to in clause (i) of this definition.

"Non-recourse Obligation" means indebtedness or other obligations substantially related to (i) the acquisition of assets (including any person that becomes a Controlled Entity) not previously owned by the Issuer, the Guarantor or any of the Guarantor's Controlled Entities or (ii) the financing of a project involving the purchase, development, improvement or expansion of properties of the Issuer, the Guarantor or any of the Guarantor's Controlled Entities, as to which the obligee with respect to such indebtedness or obligation has no recourse to the Issuer, the Guarantor or any of the Guarantor's Principal Controlled Entities or to the Issuer, the Guarantor or any such Principal Controlled Entity's assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

"Original Issue Date" means the date on which the Bonds are originally issued under the Indenture.

"Person" means any individual, corporation, firm, limited liability company, partnership, joint venture, undertaking, association, joint stock company, trust, unincorporated organization, trust, state, government or any agency or political subdivision thereof or any other entity (in each case whether or not being a separate legal entity).

"PRC" means the People's Republic of China, excluding, for purposes of this definition, the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan.

"Preferred Shares" as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends upon liquidation, dissolution or winding up.

"Principal Controlled Entities" at any time shall mean one of the Guarantor's Non-Listed Controlled Entities

(i) as to which one or more of the following conditions is/are satisfied:

(a) its total revenue or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated total revenue attributable to the Guarantor is at least 10% of the Guarantor's consolidated total revenue;

(b) its net profit or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor's consolidated net profit (before taxation and exceptional items); or

(c) its net assets or (in the case of one of the Non-Listed Controlled Entities which has one or more Non-Listed Controlled Entities) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor's consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Non-Listed Controlled Entity and the Guarantor's then latest audited consolidated financial statements;

provided that, in relation to paragraphs (a), (b) and (c) above:

(1) in the case of a corporation or other business entity becoming a Non-Listed Controlled Entity after the end of the financial period to which the Guarantor's latest consolidated

audited accounts relate, the reference to the Guarantor's then latest consolidated audited accounts and the Guarantor's Non-Listed Controlled Entities for the purposes of the calculation above shall, until the Guarantor's consolidated audited accounts for the financial period in which the relevant corporation or other business entity becomes a Non-Listed Controlled Entity are issued, be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor and its Controlled Entities adjusted to consolidate the latest audited accounts (consolidated in the case of a Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities) of such Controlled Entity in such accounts;

(2) if at any relevant time in relation to the Guarantor or any Non-Listed Controlled Entity which itself has Non-Listed Controlled Entities, no consolidated accounts are prepared and audited, total revenue, net profit or net assets of the Guarantor and/or any such Non-Listed Controlled Entity shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by or on behalf of the Guarantor;

(3) if at any relevant time in relation to any Non-Listed Controlled Entity, no accounts are audited, its total revenue, net profit or net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Non-Listed Controlled Entity prepared for this purpose by or on behalf of the Guarantor; and

(4) if the accounts of any Non-Listed Controlled Entity (not being a Non-Listed Controlled Entity referred to in proviso (1) above) are not consolidated with the Guarantor's consolidated accounts, then the determination of whether or not such Non-Listed Controlled Entity is a Principal Controlled Entity shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the Guarantor's consolidated accounts (determined on the basis of the foregoing); or

(ii) to which is transferred all or substantially all of the assets and undertakings of a Non-Listed Controlled Entity which immediately prior to the transfer was a Principal Controlled Entity; *provided* that, with effect from such transfer, the Non-Listed Controlled Entity which so transfers its assets and undertakings shall cease to be a Principal Controlled Entity (but without prejudice to paragraph (i) above) and the Non-Listed Controlled Entity to which the assets are so transferred shall become a Principal Controlled Entity.

An officer's certificate of the Guarantor delivered to the Trustee certifying in good faith as to whether or not a Non-Listed Controlled Entity is a Principal Controlled Entity shall be conclusive in the absence of manifest error and the Trustee shall be entitled to rely conclusively upon such officer's certificate (without further investigation or enquiry) and shall not be liable to any person for so accepting and relying on such officer's certificate.

"Relevant Indebtedness" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are commonly, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by the Issuer in good faith.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Issuer, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the fifth Business Day before such redemption date.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Stated Maturity" means, when used with respect to any Bond or any installment of interest thereon, the date specified in such Bond as the fixed date on which the principal (or any portion thereof) of or premium, if any, on such Bond or such installment of interest is due and payable.

"Subsidiary" of any Person means (a) any corporation, association or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total ordinary voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof (or Persons performing similar functions) or (b) any partnership, joint venture, limited liability company or similar entity of which more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, is, in the case of clauses (a) and (b), voting at the time owned or controlled, directly or indirectly, by (1) such Person, (2) such Person and one or more Subsidiaries of such Person or (3) one or more Subsidiaries of such Person. Unless otherwise specified herein, each reference to a Subsidiary will refer to a Subsidiary of the Guarantor.

"Total Equity" as of any date, means the total equity attributable to shareholders of the Guarantor on a consolidated basis determined in accordance with IFRS, as shown on the Guarantor's consolidated balance sheet for the most recent fiscal quarter.

"Treasury Yield" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the fifth Business Day before such redemption date) of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Triggering Event" means (A) any change in or amendment to the laws, regulations and rules of the PRC or the official interpretation or official application thereof ("Change in Law") that results in (x) the Group (as in existence immediately subsequent to such Change in Law), as a whole, being legally prohibited from operating substantially all of the business operations conducted by the Group (as in existence immediately prior to such Change in Law) as of the last date of the period described in the Guarantor's consolidated financial statements for the most recent fiscal quarter and (y) the Guarantor being unable to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law) in the same manner as reflected in its consolidated financial statements for the most recent fiscal quarter and (B) the Guarantor has not furnished to the Trustee, prior to the date that is twelve months after the date of the Change in Law, an opinion from an independent financial advisor or external legal counsel stating either (1) the Guarantor is able to continue to derive substantially all of the economic benefits from the business operations conducted by the Group (as in existence immediately prior to such Change in Law), taken as a whole, as reflected in its consolidated financial statements for the most recent fiscal quarter (including after giving effect to any corporate restructuring or reorganization plan of the Guarantor) or (2) such Change in Law would not materially adversely affect the Issuer's and the Guarantor's ability to make principal, premium (if any) and interest payments on the Bonds when due.

The definition of Triggering Event includes a phrase relating to operating "substantially all" or deriving "substantially all" of the economic benefits from, the business operations conducted by the Group. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the applicability of the requirement that the Issuer offers to repurchase the Bonds as a result of a Triggering Event may be uncertain.

"U.S. Government Obligations" means securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depositary receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depositary receipt.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Bonds (or beneficial interests therein).

The Bonds and the Guarantee (collectively, the "Securities") have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Securities are being offered and sold only (1) in the United States to Qualified Institutional Buyers as defined in Rule 144A under the Securities Act in compliance with Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S.

By its purchase of the Securities, each purchaser of the Securities will be deemed to:

1. represent that it is purchasing the Securities for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a Qualified Institutional Buyer, and is aware that the sale to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder; or (ii) not a resident of the United States and is purchasing the Securities in an offshore transaction in accordance with Regulation S;

2. understand and acknowledge that the Securities are being offered only in a transaction not involving any public offering in the United States, within the meaning of the Securities Act, and the Securities have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

3. agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Securities within the time period referred to in Rule 144(d) under the Securities Act with respect to such transfer, it will do so only (a) if such purchaser is an Initial Purchaser, (i) to the Issuer, the Guarantor or any subsidiary thereof; (ii) inside the United States to a Qualified Institutional Buyer in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the Securities Act; (iv) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (b) if such purchaser is a subsequent purchaser of an interest in the restricted global bond, as set forth in (a) above and, in addition, pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Securities otherwise than as described in (a)(i), (a)(ii) or (a)(iii) above or (c) below, the Issuer, the Company, the Trustee or the Paying Agent and Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. It understands that no representation has been made as to the availability of Rule 144A or any other exemption under the Securities Act or any state securities laws for the offer, sale, resale, pledge or other transfer of the Securities;

4. agree that it will inform each person to whom it transfers the Securities of any restrictions on transfer of such Securities;

5. understand that if it is a purchaser outside the United States, the Securities will be represented by the Regulation S Global Bond and that transfers thereto are restricted as described under "Description of the 2031 Bonds – Book-Entry; Delivery and Form" and "Description of the 2051 Bonds – Book-Entry; Delivery and Form." If it is a Qualified Institutional Buyer, it understands that the Securities offered in reliance on Rule 144A will be represented by the restricted global bond. Before any interest in the restricted global bond may be offered, sold, pledged, resold or otherwise transferred to a person who is not a Qualified Institutional Buyer, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Security sold within the United States will bear a legend substantially to the following effect unless otherwise agreed by us and the holder thereof in compliance with applicable law:

   THE BONDS EVIDENCED HEREBY AND THE GUARANTEE ATTACHED THERETO (COLLECTIVELY, THE "**SECURITIES**") HAVE NOT BEEN, AND ARE NOT EXPECTED TO BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS BOND OR AN INTEREST IN THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE BONDS; and

7. acknowledge that we, the Trustee, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Securities are no longer accurate, it shall promptly notify us, the Trustee and the Initial Purchasers. If it is acquiring any Securities as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indentures to effect exchanges of transfer of interests in the global bonds and of the Bonds in certificated form, see "Description of the 2031 Bonds – Book-entry; Delivery and Form" and "Description of the 2051 Bonds – Book-entry; Delivery and Form."

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of the Bonds, including any possible consequences under the laws of their country of citizenship, residence or domicile.

Mainland China

Taxation on Interest

The EIT Law imposes a tax at the rate of 10 per cent on interests realized by an enterprise holder of the Bonds that is a "non-resident enterprise", which does not have an establishment or place of business in the PRC or, whose relevant income is not effectively connected with its establishment or place of business in the PRC despite the existence of such establishment or place of business in the PRC, to the extent such interests are sourced within the PRC. The Individual Income Tax Law imposes a tax at the rate of 20 per cent. on interest paid to a foreign individual who is neither domiciled nor resides in the PRC; to the extent such income is sourced within the PRC. Pursuant to these provisions of the EIT Law and the Individual Income Tax Law, it is unclear whether we are considered as a PRC resident enterprise. If we are considered as a PRC resident enterprise, interests paid to non-resident enterprise holders and non-resident individual holders of the Bonds may be treated as income derived from sources within the PRC and thus subject to PRC withholding tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower withholding tax rate, such lower rate may apply to qualified enterprise investors in the Bonds.

Taxation on Capital Gains

The EIT Law impose a tax at the rate of 10 per cent on capital gains realized by an enterprise holder of the Bonds that is a "non-resident enterprise", which does not have an establishment or place of business in the PRC or, where despite the existence of establishment or place of business in the PRC, the relevant gain is not effectively connected with such establishment or place of business in the PRC, to the extent such capital gains are sourced within the PRC. The Individual Income Tax Law imposes a tax at the rate of 20 per cent. on capital gains realized by a foreign individual who is neither domiciled nor resident in the PRC; to the extent such capital gains are sourced within the PRC. Pursuant to these provisions of the EIT Law and the Individual Income Tax Law, although the matter is unclear, if we are considered a PRC resident enterprise, capital gains realized by non-resident enterprise holders and non-resident individual holders of the Bonds may be treated as income derived from sources within the PRC and be subject to PRC withholding tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified enterprise investors in the Bonds.

Value-added Tax and Related Surtaxes

Pursuant to the Ministry of Finance and the State Administration of Taxation jointly issued the Circular of Full Implementation of Business Tax to VAT Reform (Cai Shui [2016] No. 36) (the "Circular 36") which took effect on May 1, 2016 and respectively amended on July 1, 2017 and April 1, 2019, entities and individuals providing services within the PRC are subject to VAT. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. Circular 36 further clarifies that "loans" refer to the activity of lending capital for another's use and receiving interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of the Bonds is likely to be treated as a "loan" provided by the Bondholders to the Issuer or the Guarantor, which thus shall be regarded as financial services for VAT purposes. In general, the income derived from the provision of loans will not be subject to VAT in the PRC if none of the Issuer, the Guarantor or the Bondholders is within the PRC. However, it is uncertain whether a foreign incorporated company which is deemed to be a PRC resident enterprise would be regarded as being within the PRC. In the event that the Issuer or the Guarantor is deemed to be a PRC resident enterprise and is deemed to be within the PRC by the PRC tax authorities, the Bondholders may be deemed to be providing financial services to the Issuer or the Guarantor within the PRC and consequently, the amount of interest on the Bonds payable by the Issuer or the Guarantor (as applicable) to any non-resident Bondholders may be subject to withholding VAT at the rate of 6 per cent. plus related surcharges.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and neither the Issuer nor the Guarantor has the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

The interpretation and enforcement of Circular 36 and other applicable laws and regulations pertaining to PRC VAT involve uncertainties, and the above statements may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Stamp Duty

No mainland China's stamp tax will be chargeable upon the issue or transfer of a Bond to the extent that the register of holders of the Bonds is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Bonds outside mainland China.

Hong Kong

No Hong Kong taxes are required to be withheld from or chargeable on payments of principal, premium (if any) or interest in respect of the Bonds. No Hong Kong stamp duty is payable on the sale and purchase or other disposal of bonds or notes denominated in a currency other than the Hong Kong dollar provided that the bonds or notes are not redeemable, and may not at the option of any person be redeemed, in Hong Kong dollars. Therefore, a sale and purchase or other disposal of the Bonds will not be subject to Hong Kong stamp duty. Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the " Inland Revenue Ordinance")) and arises through or from the carrying on by the financial institution of its business in Hong Kong, even if the moneys in respect of which the interest is received or accrues are made available outside of Hong Kong; or

(iv) interest on the Bonds is received by or accrues to a corporation (other than a financial institution) and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance), even if the moneys in respect of which the interest is received or accrues are made available outside Hong Kong.

Any capital gains from the sale of the Bonds will not be subject to taxes in Hong Kong, except that Hong Kong profits tax may be chargeable in the case of owners of the Bonds who carry on a trade, profession or business in Hong Kong and such gains form part of the revenue or profits of such trade, profession or business.

United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of the Bonds by a "U.S. holder" (as defined below) who acquires our Bonds upon original issuance at their initial offering price and who holds the Bonds as "capital assets" (generally, property held for investment) for United States federal income tax purposes, but it does not purport to be a complete analysis of all potential tax consequences and considerations. This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules (e.g., banks or other financial institutions, insurance companies, broker-dealers, partnerships and their partners, tax-exempt organizations (including private foundations)), investors who are not U.S. holders, traders in securities that have elected the mark-to-market method of accounting, investors subject to the alternative minimum tax, real estate investment trusts, regulated investment companies, pension plans, cooperatives, investors who hold Bonds as part of a straddle or other integrated security transaction, investors required to accelerate the recognition of any item of gross income with respect to the Bonds as a result of such income being recognized on an applicable financial statement, or investors whose functional currency is not the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state, local, non-United States, or non-income tax (such as United States federal gift and estate tax) considerations or the Medicare surtax on net investment income. You are urged to consult your tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our Bonds.

For purposes of this summary, a "U.S. holder" is a beneficial owner of our Bonds that is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created in, or organized under the laws of, the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has an election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership or other entity treated as a partnership is a beneficial owner of our Bonds, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our Bonds, you are urged to consult your tax advisors regarding the United States federal income tax considerations of an investment in our Bonds.

Payments of Interest

Interest on the Bonds will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes. In addition to interest on the Bonds, you will be required to include in income any mainland China's or other foreign taxes withheld from the interest payments you receive and, without duplication, any Additional Amounts paid in respect of such foreign taxes withheld.

Sale, Exchange or Other Disposition of the Bonds

Upon the sale, exchange or other taxable disposition of a Bond, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as ordinary interest income, as described in "– Payments of Interest" above, to the extent not previously included in income) and your tax basis in the Bond. Your tax basis in a Bond will generally be the cost of such Bond. Gain or loss on the sale, exchange or other taxable disposition will be capital gain or loss and will be long-term capital gain or loss if the Bond were held for more than one year. Certain non-corporate U.S. holders (including individuals) may qualify for preferential rates of United States federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations.

Foreign Tax Credit

If any mainland China taxes are withheld in respect of any payments on the Bonds (as discussed in "TAXATION – Mainland China"), you may be entitled to claim either a deduction or a foreign tax credit for United States federal income tax purposes, subject to certain limitations (including that the election to deduct non-U.S. taxes in lieu of claiming foreign tax credits must apply to all of your non-U.S. taxes for a particular tax year). Interest income (including any Additional Amounts) on a Bond generally will be considered foreign source income and, for purposes of the foreign tax credit, generally will be considered "passive income" or, in certain cases, "general category income."

Because gain or loss on a sale or disposition of a Bond generally will be U.S. source gain or loss, you may not be able to claim a credit for any foreign taxes imposed upon a disposition of a Bond unless such credit can be applied (subject to certain limitations) against tax due on other income treated as derived from a foreign source. If, however, any mainland China tax is imposed upon a disposition of a Bond (as discussed in "Taxation – Mainland China") and you are eligible for the benefits of the U.S.-China income tax treaty, any gain or loss (or a portion thereof) from such disposition might be treated as non-U.S. source gain or loss for foreign tax credit purposes. You are urged to consult your tax advisors regarding the tax consequences if mainland China tax is imposed on the disposition of a Bond, including the application of the foreign tax credit rules to your particular circumstances.

You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Bonds if you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

The preceding discussion of certain U.S. federal income tax considerations is general information only and is not tax advice. Accordingly, each U.S. holder should consult its own tax advisor as to the particular tax and reporting considerations pertinent to it of holding or disposing of the Bonds, including the applicability and effect of any U.S. federal, state, local or non-U.S. tax laws, and of any changes or proposed changes in applicable law.

Cayman Islands

See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Taxation – Cayman Islands" for a description of certain tax consequences of an investment in the Bonds.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement relating to the Bonds among the Issuer, the Company, and Goldman Sachs (Asia) L.L.C., Credit Suisse (Hong Kong) Limited, J.P. Morgan Securities plc, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, Morgan Stanley & Co. International plc, Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Bank of China Limited, China Construction Bank (Asia) Corporation Limited, ICBC International Securities Limited, AMTD Global Markets Limited and BOCOM International Securities Limited, as the Initial Purchasers, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Bonds set forth opposite its name below.

Initial Purchasers	Principal Amount of the 2031 Bonds	Principal Amount of the 2051 Bonds
Goldman Sachs (Asia) L.L.C.	360,000,000	180,000,000
Credit Suisse (Hong Kong) Limited	180,000,000	90,000,000
J.P. Morgan Securities plc	180,000,000	90,000,000
China International Capital Corporation Hong Kong Securities Limited	12,000,000	6,000,000
CLSA Limited	12,000,000	6,000,000
Morgan Stanley & Co. International plc	8,000,000	4,000,000
Citigroup Global Markets Inc.	8,000,000	4,000,000
The Hongkong and Shanghai Banking Corporation Limited	8,000,000	4,000,000
Bank of China Limited	6,400,000	3,200,000
China Construction Bank (Asia) Corporation Limited	6,400,000	3,200,000
ICBC International Securities Limited	6,400,000	3,200,000
AMTD Global Markets Limited	6,400,000	3,200,000
BOCOM International Securities Limited	6,400,000	3,200,000
Total	US$800,000,000	US$400,000,000

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Bonds sold under the purchase agreement. The purchase agreement also provides that the obligations of the Initial Purchasers to purchase the Bonds are subject to, among other things, the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Bonds, officers' certificates and legal opinions and to other conditions.

The Purchase Agreement provides that the Company will pay the Initial Purchasers a customary commission.

The Initial Purchasers propose initially to offer the Bonds at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

The Company and the Issuer have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Bank of China Limited has agreed to offer and sell the Bonds only outside the United States in reliance on Regulation S.

Bonds Are Not Being Registered

The Bonds have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Bonds for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales in reliance on the exemption provided by Rule 144A and Regulation S under the Securities Act. The Initial Purchasers will not offer or sell the Bonds within the United States except to persons they reasonably believe to be Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act). Each of the Initial Purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Bonds as part of its distribution at any time within the United States. In addition, until 40 days after the commencement of this offering, an offer or sale of the Bonds within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A. Each purchaser of the Bonds will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of the Bonds

The Bonds are a new issue of securities with no established trading market. The Issuer will apply to the SEHK for listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only. However, we cannot assure you that the Bonds will be or remain listed. The Issuer has been advised by the Initial Purchasers that they presently intend to make a market in the Bonds after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure you that a liquid trading market will develop for the Bonds, that you will be able to sell your Bonds at a particular time or that the price that you receive when you sell your Bonds will be favorable. If an active trading market for the Bonds does not develop, the market price and liquidity of the Bonds may be adversely affected. If the Bonds are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Company's operating performance and financial condition, general economic conditions and other factors.

Settlement

The Issuer expects that delivery of the Bonds will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Bonds on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Bonds initially will settle on or about T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Bonds who wish to trade the Bonds prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

Each of the Issuer and the Company has agreed that it will not, for a period of 30 days after the date of this offering memorandum, the Company and the Issuer will not, without the prior written consent of the Initial Purchasers, offer, sell, contract to sell or otherwise dispose of any non-RMB denominated debt securities issued or guaranteed by the Company or the Issuer with a tenor of more than one year. For the avoidance of doubt, the restrictions set forth in the preceding sentence shall not apply to any loans.

Short Positions and Stabilizing Transactions

In connection with the offering, Goldman Sachs (Asia) L.L.C., as the stabilizing manager (the "Stabilizing Manager"), or any person acting for it, on behalf of the Initial Purchasers, may purchase and sell the Bonds in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Stabilizing Manager of a greater principal amount of the Bonds than they are required to purchase in the offering. The Stabilizing Manager must close out any short position by purchasing the Bonds in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Bonds in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Bonds so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the Stabilizing Manager's purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Bonds or preventing or retarding a decline in the market price of the Bonds. As a result, the price of the Bonds may be higher than the price that might otherwise exist in the open market.

None of the Issuer, the Company or any of the Initial Purchasers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, none of the Issuer, the Company or any of the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Bonds.

General

The distribution of this offering memorandum or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this offering memorandum or any offering material are advised to consult with their own legal advisors as to what restrictions may be applicable to them and to observe such restrictions. This offering memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized.

No action has been taken or will be taken in any jurisdiction by the Issuer, the Guarantor or the Initial Purchasers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this offering memorandum, any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

Notice to Prospective Investors in the United States

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S. The Purchase Agreement provides that the Initial Purchasers may arrange for the offer and resale of the Bonds and the Guarantee within the United States only to Qualified Institutional Buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of the Bonds or the Guarantee within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Notice to Prospective Investors in the European Economic Area

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this offering memorandum in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Notice to Prospective Investors in the United Kingdom

Each Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Each of the Initial Purchasers has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA") received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

Each of the Initial Purchasers has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Notice to Prospective Investors in Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "Financial Instruments and Exchange Act"). Accordingly, each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Notice to Prospective Investors in the PRC

Each of the Initial Purchasers has represented and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan), except as permitted by applicable laws of the PRC.

Notice to Prospective Investors in Singapore

Each Initial Purchaser has acknowledged that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase, and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Canada

The Bonds may be sold in Canada only to purchasers resident in the provinces of British Columbia, Alberta, Ontario or Quebec purchasing, or deemed to be purchasing, as principal that are both accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Bonds must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Upon receipt of this offering memorandum, each Canadian purchaser hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Bonds (including for greater certainty, any purchase confirmation and all notices) be drawn up in the English language only.

Par la réception de ce document, chaque acheteur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

Notice to Prospective Investors in Cayman Islands

Each Initial Purchaser has represented, warranted and agreed that the public in the Cayman Islands may not be invited directly or indirectly to subscribe for the Bonds.

Other Relationships

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking and financial advisory and investment banking services, for the Issuer, the Company and their respective affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. The Issuer, the Company and their respective affiliates may enter into hedging or other derivative transactions as part of their risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to its obligations under the Bonds. The Issuer's and the Company's obligations under these transactions may be secured by cash or other collateral.

In connection with the offering of the Bonds, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Guarantor or Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of the Bonds to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Company or its affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

The Initial Purchasers or certain of their affiliates may purchase Bonds and be allocated Bonds for asset management and/or proprietary purposes but not with a view to distribution.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchaser or any affiliate of the Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or its affiliate on behalf of the Issuer in such jurisdiction.

RATINGS

The Bonds are expected to be assigned a rating of "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. In addition, the Guarantor has been assigned a long-term corporate credit rating of "Baa2" with a stable look by Moody's, "BBB-" with a positive outlook by S&P and "BBB" with a stable outlook by Fitch. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Bonds. Ratings are limited in scope, and do not address all material risks relating to an investment in the Bonds, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agency, if, in each rating agency's judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating on the Bonds, on any other of our securities, or on us. See "Risk Factors – Risks Relating to the Bonds and the Guarantee – The ratings of the Bonds and the corporate ratings of the Guarantor may be lowered, suspended or withdrawn; changes in such credit rating may adversely affect the value of the Bonds."

LEGAL MATTERS

Certain legal matters in connection with this offering as to Hong Kong law and United States federal and New York law will be passed upon for the Issuer and the Company by Skadden, Arps, Slate, Meagher & Flom LLP and for the Initial Purchasers as to United States federal and New York law by Linklaters. Certain legal matters in connection with this offering as to the laws of mainland China will be passed upon for us by Jingtian & Gongcheng and for the Initial Purchasers by JunHe LLP. Certain legal matters in connection with this offering as to Cayman Islands law will be passed upon for the Company by Maples and Calder (Hong Kong) LLP. Skadden, Arps, Slate, Meagher & Flom LLP may rely upon Maples and Calder (Hong Kong) LLP with respect to matters governed by Cayman Islands law and Jingtian & Gongcheng with respect to matters governed by PRC law. Linklaters may rely upon JunHe LLP with respect to matters governed by PRC law.

INDEPENDENT AUDITORS

Our audited consolidated financial statements as of and for the years ended December 31, 2018, 2019 and 2020 included in this offering memorandum have been extracted from the Guarantor's Audited Financial Statements and our unaudited but reviewed financial results as of and for the three months ended March 31, 2020 and 2021 included in this offering memorandum have been extracted from the Guarantor's Interim Financial Results.

The Audited Financial Statements have been audited by PwC in accordance with International Standards on Auditing and the Interim Financial Results have been reviewed by PwC in accordance with International Standard on Review Engagements 2410.

GENERAL INFORMATION

Authorizations:

The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Bonds and the Indentures. The issue of the Bonds was authorized by resolutions of the Board of directors of the Issuer passed on July 6, 2021. The Company has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Guarantee and the Indentures. The issue of the Guarantee was duly authorized by the board of the Company on May 26, 2021.

Clearing Systems and Settlement:

The Legal Entity Identifier (LEI) Code of the Issuer is 254900IGJCVEY8WNJT74. The 2031 Bonds and the 2051 Bonds have been accepted for clearance through the facilities of Euroclear, Clearstream and DTC. Certain trading information with respect to the 2031 Bonds and the 2051 Bonds is set forth below:

2031 Bonds sold under	Rule 144A	Regulation S
CUSIP	98422H AC0	Y77108 AD3
ISIN	US98422HAC07	USY77108AD33
Common Code	236319164	236319571

2051 Bonds sold under	Rule 144A	Regulation S
CUSIP	98422H AE6	Y77108 AF8
ISIN	US98422HAE62	USY77108AF80
Common Code	236319695	236319725

Only Bonds evidenced by a global bond have been accepted for clearance through Euroclear, Clearstream or DTC, as the case may be.

Listing of Bonds:

Application will be made to the SEHK for the listing of the Bonds by way of debt issues to Professional Investors only. Bonds to be listed on the SEHK are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies).

Documents Available

For so long as any of the Bonds are outstanding, copies of the Indentures governing the Bonds may be inspected free of charge during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

For so long as any of the Bonds are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the specified offices of the paying agents.

No Material Adverse Change

There has been no material adverse change, or any development reasonably likely to involve an adverse change, in the financial or trading position, prospects or results of operations of the Company or the Group since March 31, 2021.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Xiaomi Corporation
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Xiaomi Corporation (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 183 to 325, which comprise:

- the consolidated balance sheet as of December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to the classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss".

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss" Refer to Note 3.3 and Note 19 to the consolidated financial statements. During the year ended December 31, 2019, the Group recognized fair value changes on the following investments in profits or losses: (i) equity investments in unlisted companies other than those accounted for using equity method, and (ii) convertible redeemable preferred shares or ordinary shares with preferential rights investments in unlisted companies (collectively the "**Unlisted Securities**"), amounting to RMB2,494,191,000 and RMB13,406,909,000, respectively. The total amount of Unlisted Securities as of December 31, 2019 was RMB15,901,100,000, accounting for 9% of the Group's total assets.	We understood and evaluated the key controls over the capturing, measurement and recording of the Unlisted Securities investments. For the classification and initial recognition of the Unlisted Securities, we have performed the following procedures: (1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees on a sample basis to understand the commercial rationale for these Unlisted Securities investments; (2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and initial recognition of the Unlisted Securities require management to analyze certain complex contract terms and make judgments to determine the classifications of the above financial assets, based on the Group's business models of managing these financial assets and the contractual terms of the cash flows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents. Management engaged an external valuer to assist to determine the fair value of these Unlisted Securities. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs. We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and fair value determination of the Unlisted Securities.	For the assessment of fair value determination of the Unlisted Securities, we involved our internal valuation specialists to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities; (3) We assessed the reasonableness of assumptions and inputs used in fair value determination of Unlisted Securities, including expected volatility, risk-free interest rate, discounted for lack of marketability; (4) We recalculated the fair values of Unlisted Securities on a sample basis; and (5) We tested the accuracy of the fair value changes on investments measured at fair value through profit or loss for the year on a sample basis. We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidences.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 31, 2020

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2019

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Revenue	6	205,838,682	174,915,425
Cost of sales	8	(177,284,649)	(152,723,486)
Gross profit		28,554,033	22,191,939
Selling and marketing expenses	8	(10,378,073)	(7,993,072)
Administrative expenses	8	(3,103,901)	(12,099,078)
Research and development expenses	8	(7,492,554)	(5,776,826)
Fair value changes on investments measured at fair value through profit or loss	19(iv)	3,813,012	4,430,359
Share of losses of investments accounted for using the equity method	11(b)	(671,822)	(614,920)
Other income	7	1,265,921	844,789
Other (losses)/gains, net		(226,399)	213,281
Operating profit		11,760,217	1,196,472
Finance income, net	10	402,429	216,373
Fair value changes of convertible redeemable preferred shares	35	—	12,514,279
Profit before income tax		12,162,646	13,927,124
Income tax expenses	12	(2,059,696)	(449,377)
Profit for the year		10,102,950	13,477,747
Attributable to:			
— Owners of the Company		10,044,164	13,553,886
— Non-controlling interests		58,786	(76,139)
		10,102,950	13,477,747
Earnings per share (expressed in RMB per share):	13		
Basic		0.423	0.843
Diluted		0.410	0.044

The notes on pages 191 to 325 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Profit for the year		**10,102,950**	13,477,747
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income of investments accounted for using the equity method	11(b)	**9,279**	191,449
Currency translation differences		**(77,430)**	(648,746)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**508,584**	(1,098,818)
Other comprehensive income/(loss) for the year, net of tax		**440,433**	(1,556,115)
Total comprehensive income for the year		**10,543,383**	11,921,632
Attributable to:			
— Owners of the Company		**10,472,914**	11,989,243
— Non-controlling interests		**70,469**	(67,611)
		10,543,383	11,921,632

The notes on pages 191 to 325 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2019

(Expressed in RMB)

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Land use rights		—	3,402,968
Property and equipment	14	6,992,331	5,068,053
Intangible assets	15	1,672,002	2,061,192
Investments accounted for using the equity method	11(b)	9,300,507	8,639,238
Long-term investments measured at fair value through profit or loss	19	20,679,363	18,636,208
Deferred income tax assets	34	1,283,415	1,312,245
Other non-current assets	17	6,162,503	95,485
		46,090,121	39,215,389
Current assets			
Inventories	23	32,585,438	29,480,685
Trade receivables	21	6,948,567	5,598,443
Loan receivables	20	12,723,503	10,293,645
Prepayments and other receivables	22	19,837,018	20,914,946
Short-term investments measured at fair value through profit or loss	19	16,463,390	6,648,526
Short-term bank deposits	24(c)	21,523,043	1,365,991
Restricted cash	24(b)	1,538,266	1,480,178
Cash and cash equivalents	24(a)	25,919,861	30,230,147
		137,539,086	106,012,561
Total assets		183,629,207	145,227,950
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	388	377
Reserves		81,330,186	71,322,608
		81,330,574	71,322,985
Non-controlling interests		327,102	(72,856)
Total equity		81,657,676	71,250,129

CONSOLIDATED BALANCE SHEET

As of December 31, 2019

(Expressed in RMB)

	Note	As of December 31, 2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	33	4,786,856	7,856,143
Deferred income tax liabilities	34	579,902	777,645
Warranty provision		667,857	559,016
Other non-current liabilities	29	3,756,211	2,844,859
		9,790,826	12,037,663
Current liabilities			
Trade payables	30	59,527,940	46,287,271
Other payables and accruals	31	9,101,343	6,312,770
Advance from customers	32	8,237,119	4,479,522
Borrowings	33	12,836,555	3,075,194
Income tax liabilities		479,350	661,816
Warranty provision		1,998,398	1,123,585
		92,180,705	61,940,158
Total liabilities		101,971,531	73,977,821
Total equity and liabilities		183,629,207	145,227,950

The notes on pages 191 to 325 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 183 to 325 were approved by the Board of Directors on March 31, 2020 and were signed on its behalf:

Lei Jun **Lin Bin**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 26) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2019		377	—	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129
Comprehensive income									
Profit for the year		—	—	—	—	10,044,164	10,044,164	58,786	10,102,950
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	11(b)	—	—	—	9,279	—	9,279	—	9,279
Currency translation differences	26	—	—	—	(89,113)	—	(89,113)	11,683	(77,430)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	26	—	—	—	508,584	—	508,584	—	508,584
Total comprehensive income		—	—	—	428,750	10,044,164	10,472,914	70,469	10,543,383
Transactions with owners in their capacity as owners									
Purchase of own shares	25	—	(2,932,111)	—	—	—	(2,932,111)	—	(2,932,111)
Cancellation of shares	25	1	1,879,289	(1,882,527)	—	—	(3,237)	—	(3,237)
Release of ordinary shares from Share Scheme Trusts	25	1	—	167,447	(139,015)	—	28,433	—	28,433
Share of other reserves of investments accounted for using the equity method	11(b)	—	—	—	229,740	—	229,740	—	229,740
Employees share-based compensation scheme:									
— value of employee services	28	—	—	—	2,127,878	—	2,127,878	89	2,127,967
— exercise of share options and restricted stock units	28	9	—	1,442,634	(1,184,767)	—	257,876	—	257,876
Capital injection from non-controlling interests		—	—	—	—	—	—	155,496	155,496
Acquisition of additional equity interests in non-wholly owned subsidiaries	11(a)	—	—	—	(173,904)	—	(173,904)	173,904	—
Appropriation to statutory reserves	26	—	—	—	295,047	(295,047)	—	—	—
Appropriation to general reserves	26	—	—	—	2	(2)	—	—	—
Total transactions with owners in their capacity as owners		11	(1,052,822)	(272,446)	1,154,981	(295,049)	(465,325)	329,489	(135,836)
Balance at December 31, 2019		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves (Note 26) RMB'000	Accumulated losses/retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the Company						
Balance at January 1, 2018		150	742,760	947,420	(128,962,691)	(127,272,361)	61,670	(127,210,691)
Comprehensive income								
Profit for the year		–	–	–	13,553,886	13,553,886	(76,139)	13,477,747
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss								
Share of other comprehensive income of investments accounted for using the equity method	11(b)	–	–	191,449	–	191,449	–	191,449
Currency translation differences	26	–	–	(657,274)	–	(657,274)	8,528	(648,746)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences	26	–	–	(1,098,818)	–	(1,098,818)	–	(1,098,818)
Total comprehensive income		–	–	(1,564,643)	13,553,886	11,989,243	(67,611)	11,921,632
Transactions with owners in their capacity as owners								
Issuance of ordinary shares	25	11	9,827,146	–	–	9,827,157	–	9,827,157
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	25	27	23,248,593	–	–	23,248,620	–	23,248,620
Release of ordinary shares from Share Scheme Trust	25	15	933,592	(841,640)	–	91,967	–	91,967
Conversion of convertible redeemable preferred shares to ordinary shares	35	174	151,100,334	–	–	151,100,508	–	151,100,508
Share of other reserves of investments accounted for using the equity method	11(b)	–	–	62,657	–	62,657	–	62,657
Employees share-based compensation scheme:								
– value of employee services	28	–	–	2,358,720	–	2,358,720	102,805	2,461,525
Acquisition of additional equity interests in non-wholly owned subsidiaries		–	230,899	(152,071)	(162,046)	(83,218)	(171,220)	(254,438)
Appropriation to statutory reserves	26	–	–	57,808	(57,808)	–	–	–
Share premium set off the accumulated losses and other reserves	25	–	(142,232,042)	5,579,472	136,652,570	–	–	–
Others		–	–	(308)	–	(308)	1,500	1,192
Total transactions with owners in their capacity as owners		227	43,108,522	7,064,638	136,432,716	186,606,103	(66,915)	186,539,188
Balance at December 31, 2018		377	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129

The notes on pages 191 to 325 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	25,952,239	122,171
Income tax paid		(2,141,885)	(1,536,742)
Net cash generated from/(used in) operating activities		23,810,354	(1,414,571)
Cash flows from investing activities			
Capital expenditures		(3,405,163)	(3,785,259)
Proceeds from disposal of property and equipment	36(b)	67,735	27,367
Placement of short-term bank deposits		(25,728,849)	(2,060,799)
Withdrawal of short-term bank deposits		5,525,882	903,504
Placement of long-term bank deposits		(590,157)	—
Purchase of short-term investments measured at fair value through profit or loss		(134,409,027)	(140,955,400)
Receipt from maturity of short-term investments measured at fair value through profit or loss		124,632,553	139,154,171
Purchase of short-term investments measured at amortized cost		—	(3,500,000)
Receipt from maturity of short-term investments measured at amortized cost		—	4,300,000
Interest income received		864,226	489,816
Investment income received		386,461	335,695
Purchase of long-term investments measured at fair value through profit or loss		(3,987,225)	(1,999,752)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		4,846,175	304,999
Purchase of investments accounted for using the equity method		(200,000)	(793,595)
Proceeds from disposal of investments accounted for using the equity method		80,048	—
Disposal of a subsidiary		—	(25,655)
Acquisition of a subsidiary, net of cash acquired		—	(34,936)
Dividends received		347,205	131,804
Net cash used in investing activities		(31,570,136)	(7,508,040)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Year ended December 31, 2019 RMB'000	2018 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		17,036,724	10,269,415
Repayment of borrowings		(10,417,425)	(10,505,637)
Finance expenses paid		(218,994)	(243,966)
Placement of restricted cash		—	(4,152,345)
Withdrawal of restricted cash		75,773	5,059,245
Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary		(187,000)	(165,000)
Proceeds from fund investors		—	2,781,000
Net proceeds from issuance of ordinary shares relating to the initial public offering		—	23,248,620
Net proceeds from exercise of share options		186,838	—
Payments for shares repurchase		(2,932,111)	—
Payment of lease liabilities		(578,063)	—
Capital contribution from non-controlling interests		155,496	—
Proceeds from release of ordinary shares from Share Scheme Trust		—	91,967
Others		—	190,873
Net cash generated from financing activities		3,121,238	26,574,172
Net (decrease)/increase in cash and cash equivalents		(4,638,544)	17,651,561
Cash and cash equivalents at the beginning of the year	24(a)	30,230,147	11,563,282
Effects of exchange rate changes on cash and cash equivalents		328,258	1,015,304
Cash and cash equivalents at the end of the year	24(a)	25,919,861	30,230,147

The notes on pages 191 to 325 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "**Company**"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "**Group**") are principally engaged in development and sales of smartphones, internet of things ("**IoT**") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain subsidiaries through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("**Xiaomi Communications**", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from the respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information (continued)

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 11(a).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standards Board ("**IASB**") and disclosure requirements of the Hong Kong Companies Ordinance.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following new and amended standards, and annual improvements are mandatory for the first time for the Group's financial year beginning on January 1, 2019 and are applicable for the Group:

- IFRS 16 Leases ("**IFRS 16**")
- IFRIC 23 Uncertainty over income tax treatments
- Amendments to IAS 19 Employee benefits on plan amendment, curtailment or settlement
- Amendments to IFRS Annual Improvements to IFRSs Standards 2015–2017 Cycle
- Amendments to IAS 28 Long-term interests in associates and joint ventures
- Amendment to IFRS 9 Prepayment features with negative compensation

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group other than IFRS 16, details of which are set out in Note 2.2.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 on the Group's consolidated financial statements.

As indicated in Note 2.1, the Group has adopted IFRS 16 from January 1, 2019. The Group has applied IFRS 16 using the simplified transition approach and has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. The new accounting policies are disclosed in Note 2.33.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.16% per annum.

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet immediately before the adoption of the IFRS 16. As a result of the adoption of IFRS 16, as of January 1, 2019, the Group recognized a right-of-use asset of RMB4,281,939,000 in other non-current assets, and lease liabilities of RMB285,402,000 and RMB573,431,000 in other payables and accruals and other non-current liabilities, respectively. The impact on transition also included a decrease of RMB52,987,000 in prepayments and other receivables, a decrease of RMB3,389,731,000 in land use rights and a decrease of RMB19,612,000 in other payables and accruals as a result of the adjustment of prepaid or accrued lease payments. On adoption of IFRS 16, the Group reclassified the land use rights to right-of-use assets, which represent the prepaid operating lease payments.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- account for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 in the same way as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies (continued)

The reconciliation between the operating lease commitments disclosed as of December 31, 2018 and the lease liability recognized as of January 1, 2019 is as follows:

	RMB'000
Operating lease commitments disclosed as of December 31, 2018	1,029,240
Discounted using the Group's incremental borrowing rate of 5.16%	979,755
Less: short-term leases recognized on a straight-line basis as expense	(258,968)
Add: adjustments as a result of a different treatment of extension and termination options and others	138,046
Lease liabilities recognized as of January 1, 2019	858,833

In addition, upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities in the consolidated statement of cash flows.

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(b) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.1 Consolidation (continued)

(b) Business combination (continued)

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("**OCI**") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.3 Subsidiaries (continued)

2.3.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.4 Associates (continued)

(a) Investments in associates in the form of ordinary shares (continued)

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other (losses)/gains, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

(b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.12).

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollar ("**US$**"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.6 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains, net".

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

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income.

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

(d) Disposal of foreign operation and partial disposal

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

2 Summary of significant accounting policies (continued)

2.6 Foreign currency translation (continued)

(d) Disposal of foreign operation and partial disposal (continued)

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

2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
— Electronic equipment	3 years
— Office equipment	3–5 years
— Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other (losses)/gains, net" in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.8 Land use rights

Land use rights represent prepayments for the land use rights in mainland China and are stated at cost initially and expensed on a straight-line basis over the periods of the leases.

2.9 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 40 years by using the straight-line method.

2.10 Intangible assets

(a) Goodwill

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

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

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

(b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

2 Summary of significant accounting policies (continued)

2.10 Intangible assets (continued)

(c) **Trademarks, patents and domain name**

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 16 years.

(d) **Other intangible assets**

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

(e) **Research and development expenditures**

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortized cost.

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

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

See Note 18 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

2.12.2 Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other (losses)/gains, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other (losses)/gains, net.

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

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

2.12.3 Impairment

The Group has types of financial assets subject to IFRS 9's new expected credit loss model:

- loan receivables from fintech business;
- trade receivables for sales of goods or provision of services; and
- other receivables

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost including loan receivables, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

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

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

2.12.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("**pass through**" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

2.12.4 Derecognition (continued)

Financial assets (continued)

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

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

Asset-backed securities

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liabilities is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

Other financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.13 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. They are generally due for settlement within one year and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.12.3 for a description of the Group's impairment policies for trade and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.16 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.12.3 for a description of the Group's impairment policy for loan receivables.

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (see Note 2.20).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.20 Convertible redeemable preferred shares

Convertible redeemable preferred shares ("**Preferred Shares**") issued by the Company are redeemable at the option of the holders at any time commencing on the redemption start date of December 23, 2019. This instrument can be converted into Class B ordinary shares of the Company at the option of a holder after July 3, 2015, or automatically converted into ordinary shares upon occurrence of (i) the closing of a Qualified Public Offering ("**QPO**"), or (ii) with written consent of holders of more than fifty percent (50%) of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds (2/3) of the issued and outstanding Preferred Shares (other than Series A Preferred Shares).

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

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

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

2.21 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.24 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) **Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.24 Current and deferred income tax (continued)

(b) **Deferred income tax**

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) **Offsetting**

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of significant accounting policies (continued)

2.25 Employee benefits

(a) **Pension obligations**

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee — administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(b) **Employee leave entitlements**

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) **Bonus plans**

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.26 Share-based payment

(a) **Equity-settled share-based payment transactions**

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("**RSUs**") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.26 Share-based payment (continued)

(a) Equity-settled share-based payment transactions (continued)

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.27 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

2.28 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

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

(a) Sales of products

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.28 Revenue recognition (continued)

(a) Sales of products (continued)

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(b) Internet services

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

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

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

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. For online game, the Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loans services through its own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.28 Revenue recognition (continued)

(b) Internet services (continued)

(ii) Internet value-added services (continued)

Fintech business (continued)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group acts as an agent to facilitate such loans. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2 Summary of significant accounting policies (continued)

2.29 Interest income

Interest income from financial assets at FVPL is included in investment income as part of other income.

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.30 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.31 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

2.32 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.33 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until December 31, 2018, leases of plant and equipment and office where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the repayment of lease liability and finance cost. The finance cost was charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

2 Summary of significant accounting policies (continued)

2.33 Leases (continued)

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.33 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group has chosen not to revalue its right-of-use assets.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term (Note 17). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB28,060,000 lower/higher (2018: RMB148,939,000 higher/lower), as a result of net foreign exchange losses (2018: net foreign exchange gains) on translation of net monetary assets (2018: net monetary liabilities) denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB326,278,000 (2018: RMB213,622,000) lower/higher, as a result of net foreign exchange losses on translation of net monetary liabilities denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 33), loan receivables, long-term bank deposits, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB29,537,000 (2018: RMB17,158,000) lower/higher. This analysis does not include the effect of interest capitalized.

If the interest rate of short-term bank deposits had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been RMB107,615,000 (2018: RMB6,830,000) higher/lower.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been RMB129,599,000 (2018: RMB151,151,000) higher/lower.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments, loan receivables, trade receivables, other receivables, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

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

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

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

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is RMB8,142,058,000 as of December 31, 2019 (2018: RMB4,391,098,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

(b1) Expected credit loss model for loan receivables, as summarized below:

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(3) Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month ("**12M**") or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Credit loss allowance

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "**step down**") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;

- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2019	101,621	89,271	510,973	701,865
Transfers:				
Transfer from Stage 1 to Stage 2	(208)	13,785	—	13,577
Transfer from Stage 1 to Stage 3	(2,114)	—	175,902	173,788
Transfer from Stage 2 to Stage 3	—	(68,890)	146,511	77,621
Change in PDs/LGDs/EADs	17	11	35,593	35,621
Loan receivables derecognized during the year	(98,076)	(21,373)	(183,746)	(303,195)
New loan receivables originated	196,849	387,281	642,015	1,226,145
Write-offs	—	—	(255,685)	(255,685)
Loss allowance as of December 31, 2019	198,089	400,085	1,071,563	1,669,737

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2018	122,584	50,757	100,327	273,668
Transfers:				
Transfer from Stage 1 to Stage 2	(74)	2,630	—	2,556
Transfer from Stage 1 to Stage 3	(2,502)	—	168,584	166,082
Transfer from Stage 2 to Stage 1	—	(13)	—	(13)
Transfer from Stage 2 to Stage 3	—	(38,453)	84,121	45,668
Transfer from Stage 3 to Stage 1	—	—	(9)	(9)
Transfer from Stage 3 to Stage 2	—	1	(2)	(1)
Change in PDs/LGDs/EADs	(17)	4	2,711	2,698
Loan receivables derecognized during the year	(108,910)	(15,333)	(25,239)	(149,482)
New loan receivables originated	90,540	89,678	316,746	496,964
Write-offs	—	—	(136,266)	(136,266)
Loss allowance as of December 31, 2018	101,621	89,271	510,973	701,865

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

The high volume of new loan receivables originated during the year ended December 31, 2019, aligned with the Group's organic growth objective, increased the gross carrying amount of the loan receivables by 126% (2018: 128%) with a corresponding RMB196,849,000 (2018: RMB90,540,000) increase in loss allowance measured on a 12-month basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The gross carrying amount of the loan receivables explains their significance to the changes in the loss allowance as discussed above:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Gross carrying amount as of January 1, 2019	10,227,478	207,640	560,392	10,995,510
Transfers:				
Transfer from Stage 1 to Stage 2	(18,538)	18,538	—	—
Transfer from Stage 1 to Stage 3	(188,121)	—	188,121	—
Transfer from Stage 2 to Stage 3	—	(154,171)	154,171	—
Loan receivables derecognized during the year other than write-offs	(10,000,977)	(53,444)	(199,724)	(10,254,145)
New loan receivables originated	12,713,842	514,412	679,306	13,907,560
Write-offs	—	—	(255,685)	(255,685)
Gross carrying amount as of December 31, 2019	12,733,684	532,975	1,126,581	14,393,240
Gross carrying amount as of January 1, 2018	8,172,340	133,327	112,494	8,418,161
Transfers:				
Transfer from Stage 1 to Stage 2	(5,381)	5,381	—	—
Transfer from Stage 1 to Stage 3	(183,244)	—	183,244	—
Transfer from Stage 2 to Stage 1	25	(25)	—	—
Transfer from Stage 2 to Stage 3	—	(91,436)	91,436	—
Transfer from Stage 3 to Stage 1	10	—	(10)	—
Transfer from Stage 3 to Stage 2	—	3	(3)	—
Loan receivables derecognized during the year other than write-offs	(7,976,884)	(41,810)	(28,232)	(8,046,926)
New loan receivables originated	10,220,612	202,200	353,886	10,776,698
Write-offs	—	—	(152,423)	(152,423)
Gross carrying amount as of December 31, 2018	10,227,478	207,640	560,392	10,995,510

There is no originated credit-impaired loan receivables of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write-off loan receivables that are still subject to enforcement activity. The outstanding contractual amounts of loan receivables written off during the year ended December 31, 2019 was RMB255,685,000(2018: RMB152,423,000). The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2019, there is no non-compliance with such loan covenants (2018: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 year and 2 years RMB'000	Between 2 years and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2019					
Borrowings	12,836,555	3,176,000	1,074,448	536,408	17,623,411
Trade payables	59,527,940	—	—	—	59,527,940
Other payables	6,175,923	166,065	355,915	392,040	7,089,943
Lease liabilities	414,687	204,959	275,879	108,590	1,004,115
Investment from fund investors	—	—	—	3,074,210	3,074,210
Off-balance sheet guarantee liabilities	7,893,941	—	—	—	7,893,941
At December 31, 2018					
Borrowings	3,075,194	6,145,202	450,308	1,260,633	10,931,337
Trade payables	46,287,271	—	—	—	46,287,271
Other payables	5,312,834	206,488	201,689	217,965	5,938,976
Investment from fund investors	—	—	—	2,823,504	2,823,504
Off-balance sheet guarantee liabilities	4,325,961	—	—	—	4,325,961

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital, share premium and Preferred Shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has operating profits and a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at December 31, 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	3,651,090	—	17,028,273	20,679,363
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	16,463,390	16,463,390
	3,651,090	—	33,491,663	37,142,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2018:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	5,215,898	—	13,420,310	18,636,208
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	6,648,526	6,648,526
	5,215,898	—	20,068,836	25,284,734

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets and liabilities include long-term investments measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and Preferred Shares.

The changes in level 3 instruments of Preferred Shares for the year ended December 31, 2018 are presented in the Note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	13,420,310	13,092,429
Addition	3,486,670	1,727,614
Disposal	(396,683)	(146,908)
Changes in fair value	2,287,879	6,566,513
Transfer to long-term investments accounted for using the equity method	(958,701)	(6,523,539)
Transfer to level 1 financial instruments	(967,179)	(1,467,599)
Exchange gains	155,977	171,800
At the end of the year	17,028,273	13,420,310
Net unrealized gains for the year	1,772,043	4,047,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	6,648,526	4,488,076
Addition	134,409,027	140,955,400
Disposal	(125,019,014)	(139,154,171)
Changes in fair value	424,851	359,221
At the end of the year	16,463,390	6,648,526
Net unrealized gains for the year	38,390	23,526

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 19), and short-term investments measured at fair value through profit or loss (Note 19). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including market approach etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31,			As of December 31,		
	2019	2018		2019	2018	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss	17,028,273	13,420,310	Expected volatility	26%–59%	32%–62%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	5%–25%	5%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	2%–3%	2%–4%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	16,463,390	6,648,526	Expected rate of return	2%–5%	2%–5%	The higher the expected rate of return, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB3,714,275,000 (2018: RMB2,528,473,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2019, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering of the investee companies.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowing, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

4 Critical accounting estimates and judgments (continued)

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

(c) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

(d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

(e) Recoverability of non-financial assets and investments accounted for using the equity method

The recoverable amount of non-financial assets and investments accounted for using the equity method is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue and amount of operating costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments (continued)

(e) Recoverability of non-financial assets and investments accounted for using the equity method (continued)

The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods.

(f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

(g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

5 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smartphones
- IoT and lifestyle products
- Internet services
- Others

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of losses of investments accounted for using the equity method, other income, other (losses)/gains, net, finance income, net, fair value changes of convertible redeemable preferred shares and income tax expenses are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services. Others segment primarily comprises revenue from the Group's hardware repair services for products and sale of materials.

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the years ended December 31, 2019 and 2018. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The segment results for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	122,094,897	62,087,998	19,841,569	1,814,218	205,838,682
Cost of sales	(113,335,546)	(55,134,299)	(6,998,096)	(1,816,708)	(177,284,649)
Gross profit/(loss)	8,759,351	6,953,699	12,843,473	(2,490)	28,554,033

	Year ended December 31, 2018				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	113,800,386	43,816,885	15,955,558	1,342,596	174,915,425
Cost of sales	(106,757,127)	(39,306,134)	(5,683,856)	(976,369)	(152,723,486)
Gross profit	7,043,259	4,510,751	10,271,702	366,227	22,191,939

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the years ended December 31, 2019 and 2018, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2019		2018	
	RMB'000	%	RMB'000	%
Mainland China	114,608,633	55.7	104,944,803	60.0
Rest of the world (Note(a))	91,230,049	44.3	69,970,622	40.0
	205,838,682		174,915,425	

Note:

(a) Revenues outside mainland China are mainly from India, Indonesia and Western Europe.

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2019 and 2018 are listed as below:

	Year ended December 31,	
	2019	2018
	%	%
Customer A	12.1	10.9

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

6 Revenue

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Smartphones	122,094,897	113,800,386
IoT and lifestyle products	62,087,998	43,816,885
Internet services	19,841,569	15,955,558
Others	1,814,218	1,342,596
	205,838,682	174,915,425

7 Other income

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Government grants	400,405	274,584
Value-added tax and other tax refunds	55,282	82,507
Dividend income	347,205	131,804
Investment income from short-term investments measured at fair value through profit or loss	386,461	335,695
Investment income from short-term investments measured at amortized cost	—	20,199
Others	76,568	—
	1,265,921	844,789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

8 Expenses by nature

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Cost of inventories sold	157,935,754	138,237,733
Provision for impairment of inventories (Note 23)	3,859,675	3,006,525
Royalty fees	5,042,116	4,263,421
Employee benefit expenses (Note 9)	8,304,928	17,114,892
Depreciation of property and equipment, right-of-use assets and investment properties (Note 14, 16, 17)	895,273	219,523
Amortization of intangible assets (Note 15)	485,786	528,693
Promotion and advertising expenses	3,355,201	2,486,350
Content fees to game developers and video providers	1,754,622	1,629,144
Credit loss allowance for loan receivables	1,015,619	607,180
Consultancy and professional service fees	730,312	903,076
Cloud service, bandwidth and server custody fees	1,724,145	1,725,218
Office rental expenses	—	529,497
Warranty expenses	2,641,794	1,068,252
Auditor's remuneration	79,126	51,803

During the year, the Group incurred expenses for the purpose of research and development of approximately RMB7,492,554,000 (2018: RMB5,776,826,000), which comprised employee benefits expenses of RMB4,526,246,000 (2018: RMB4,043,476,000). No significant development expenses had been capitalized during the year (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	4,699,234	3,565,209
Share-based compensation expenses (Note (a) and Note 28)	2,201,722	12,380,668
Contributions to pension plans	551,073	481,686
Other social security costs, housing benefits and other employee benefits	852,899	687,329
	8,304,928	17,114,892

Note:

(a) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Xiaomi Development Fund ("**Employee Fund**").

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director (Chew Shou Zi) during the year ended December 31, 2019 (2018: Lei Jun). All of these individuals including that one director have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2019 and 2018. The emoluments payable to the five highest paid individuals during the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonuses	6,762	9,398
Share-based compensation expenses	262,073	10,208,783
Contributions to pension plans	154	71
Other social security costs, housing benefits and other employee benefits	229	70
	269,218	10,218,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31, 2019	2018
Hong Kong dollar ("**HK$**") 10,000,001 to HK$30,000,000	—	—
HK$30,000,001 to HK$100,000,000	5	4
HK$100,000,001 to HK$150,000,000	—	—
HK$150,000,001 to HK$15,000,000,000	—	1

(b) Benefits and interests of directors

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
CHEW, Shou Zi (i)	—	—	—	—	—	—
Non-executive Directors						
KOH, Tuck Lye (ii)	—	—	—	—	—	—
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	500	—	—	—	—	500
LEE, Ka Kit (iii)	311	—	—	—	—	311
WONG, Shun Tak (v)	823	—	—	—	—	823
TONG, Wai Cheung Timothy (iv) (vi)	511	—	—	—	—	511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(b) Benefits and interests of directors (continued)

Notes:

(i) Mr. Chew Shou Zi was appointed as an executive director of the Company with effect from October 25, 2019.

(ii) Mr. Koh Tuck Lye has resigned as a non- executive director of the Company with effect from October 25, 2019.

(iii) Dr. Lee Ka Kit has resigned as an independent non-executive director of the Company with effect from August 23, 2019.

(iv) Prof. Tong Wai Cheung Timothy was appointed as an independent non-executive director of the Company with effect from August 23, 2019.

(v) HK$323,000 was paid to Mr. Wong Shun Tak during the year ended December 31, 2019 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(vi) HK$323,000 was paid to Prof. Tong Wai Cheung Timothy during the year ended December 31, 2019 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

During the year ended December 31, 2019, no share based awards were granted to directors. Certain share based awards were granted to Lei Jun during the year ended December 31, 2018 (Note 28).

(c) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

(d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

10 Finance income, net

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	930,889	601,065

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

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Finance costs:		
Interest expense from liabilities to fund investors (Note 29)	250,706	42,504
Interest expense from borrowings (Note 33) and lease liabilities (Note 16)	407,141	415,465
Less: amount capitalized	(129,387)	(73,277)
	528,460	384,692

Finance costs have been capitalized on qualifying assets at average interest rates of 5.78% per annum for the year ended December 31, 2019 (2018: 5.35%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2019	2018	As of the date of this report	Principal activities
Subsidiaries							
Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	HK$10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	US$2	100%	100%	100%	Investment holding and investment activities
Xiaomi Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar ("**SGD**")1 and US$149,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Finance Inc.	Cayman Islands, limited liability company	February 15, 2018	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Best Time International Ltd.	Hong Kong, limited liability company	December 20, 2018	US$500,000,000	100%	100%	100%	Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2019	2018	As of the date of this report	Principal activities
Subsidiaries							
Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$130,000,000	100%	100%	100%	Sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mainland China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Sales of smart hardware
Taiwan Xiaomi Communications Co., Ltd.	Taiwan, limited liability company	April 25, 2000	New Taiwan Dollar("**NTD**") 5,000,000	100%	100%	100%	Sales of smart hardware
Chongqing Xiaomi Microcredit Co., Ltd.	Mainland China, limited liability company	June 12, 2015	US$450,000,000	100%	100%	100%	Internet finance and consumer loan services
Beijing Xiaomi Mobile Software Co., Ltd.	Mainland China, limited liability company	May 8, 2012	RMB288,000,000	100%	100%	100%	Software and hardware development and provision of software related services
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2019	2018	As of the date of this report	
Subsidiaries Indirectly held (continued):							
Guangdong Xiaomi Inc.	Mainland China, limited liability company	September 21, 2015	RMB1,000,000,000	100%	100%	100%	Provision of software and technology service
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Timi Personal Computing Co., Ltd.	Mainland China, limited liability company	July 28, 2015	RMB2,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited	India, limited liability company	October 7, 2014	Indian Rupees ("**INR**")207,450	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	100%	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	100%	100%	100%	Operation of retail stores
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	–	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

				Effective interest held			
Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	As of December 31, 2019	As of December 31, 2018	As of the date of this report	Principal activities
Subsidiaries Indirectly held (continued):							
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	US$1	100%	100%	100%	Investment activities
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	US$1,000,001	100%	100%	100%	Investment activities
Xiaomi Home Technology Co., Ltd.	Mainland China, limited liability company	January 20, 2017	RMB80,000,000	100%	100%	100%	Operation of retail stores
Beijing Zilin Real Estate Co., Ltd.	Mainland China, limited liability company	November 29, 2018	RMB1,000,000,000	95%	95%	95%	Property management
Xiaomi Commercial Factoring (Tianjin) Co., Ltd.	Mainland China, limited liability company	March 21, 2018	US$380,000,000	100%	100%	100%	Commercial factoring business
Beijing Xiaomi Software Co., Ltd.	Mainland China, limited liability company	December 19, 2011	RMB18,859,500	100%	100%	100%	Research and development of computer software and information technology
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("**IDR**") 13,000,000,000	100%	100%	100%	Sales of smartphones and ecosystem partners' products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2019	Effective interest held As of December 31, 2018	Effective interest held As of the date of this report	Principal activities
Subsidiaries Indirectly held (continued):							
Xiaomi Technology (Wuhan) Co., Ltd.	Mainland China, limited liability company	September 1, 2017	RMB210,000,000	100%	100%	100%	Software development
Airstar Bank Limited	Hong Kong, limited liability company	July 13, 2018	HK$1,500,000,000	90%	90%	90%	Virtual banking
Xiaomi Information Technology Wuhan Ltd.	Mainland China, limited liability company	August 3, 2018	RMB123,770,000	100%	100%	100%	Information technology advisory services
Beijing Pinecone Electronics Co., Ltd. (Note (b))	Mainland China, limited liability company	October 16, 2014	RMB250,000,000	100%	72%	100%	Development and sales of electronic products
Chengdu Beida Asset Management Co., Ltd.	Mainland China, limited liability company	August 17, 2017	RMB20,000,000	100%	100%	100%	Asset management, project investment, investment consulting
Beijing Xiaomi Intelligent Technology Co., Ltd.	Mainland China, limited liability company	May 15, 2018	RMB40,000,000	100%	100%	100%	Technology development, technology diffusion, technology transfer, technology consulting

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2019	2018	As of the date of this report	Principal activities
Controlled structured entities (Note (a)):							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Venture Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB2,476,557,552	100%	100%	100%	Investment activities
Sichuan Silver Mi Technology Co., Ltd.	Mainland China, limited liability company	October 26, 2005	RMB2,000,000,000	100%	100%	100%	Research and development of computer software and market research
Jiefu Ruitong Inc.	Mainland China, limited liability company	January 11, 2011	RMB100,000,000	100%	100%	100%	Provision of electronic payment services
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services
Tianjin Gold Mi Investment Partners (Limited Partnership)	Mainland China, limited partnership	July 16, 2014	RMB2,408,957,772	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held: As of December 31, 2019	Effective interest held: As of December 31, 2018	Effective interest held: As of the date of this report	Principal activities
Controlled structured entities (Note (a)):							
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB3,384,000,000	18%	18%	18%	Investment activities
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business

Notes:

(a) The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) In 2019, the Group entered into a share repurchase agreement with minority shareholders of Pinecone Cayman Limited ("**Pinecone Cayman**") to obtain certain indirect equity interest in it, as a result, the Group's shareholding interest in Beijing Pinecone Electronics Co., Ltd. which was indirectly owned by Pinecone Cayman changed from 72% to 100%.

(c) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(d) The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Investments in associate accounted for using the equity method		
— Listed entities	5,499,386	6,198,681
— Unlisted entities	3,801,121	2,440,557
	9,300,507	8,639,238

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	8,639,238	1,710,819
Additions (Note (a),(b))	1,197,944	7,289,333
Disposal	(93,596)	(100)
Share of losses	(671,822)	(614,920)
Share of other comprehensive income	9,279	191,449
Share of changes of other reserves	229,740	62,657
Dividends from associates	(10,276)	—
At the end of the year	9,300,507	8,639,238

Notes:

(a) In April 2019, Ninebot Limited ("**Ninebot**"), an investment engaging in the operation of developing and selling IoT-enabled smart mobility products mainly in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, was accepted by the Shanghai Stock Exchange for its listing application on the Sci-Tech Innovation Board (STAR Market). The conversion of the preference shares in Ninebot owned by the Group into ordinary shares was completed on April 17, 2019, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.

(b) In June 2019, Shanghai Sunmi Technology Co., Ltd. ("**Sunmi**"), an investment engaging in the provision of a full range of intelligent hardware solutions based on Android's operating system for commercial applications in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, underwent the overall change from a limited liability company to a joint stock company. The conversion of the preference shares in Sunmi owned by the Group into ordinary shares was completed on June 28, 2019, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

Set out below are the material associates of the Group as of December 31, 2019 and 2018. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

				Quoted fair value		Carrying amount	
				As of December 31,		As of December 31,	
	Place of	% of Ownership	Principal	2019	2018	2019	2018
Name of entity	incorporation	interest	activities	RMB'000	RMB'000	RMB'000	RMB'000
Sichuan Xin Wang Bank Co., Ltd. ("**XW Bank**")	Mainland China	29.5	Provision of internet banking service	NA	NA	1,269,913	936,908
iQIYI, Inc. ("**iQIYI**")	Cayman Islands	6.7	Provision of internet video streaming services	7,192,441	4,984,330	3,769,444	4,377,472

The associates of the Group have been accounted by using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b)Investments accounted for using the equity method (continued)

Set out below are the summarized financial information of material associates.

	XW Bank		iQIYI	
	As of December 31,		As of December 31,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated balance sheets				
Current assets	10,427,012	28,137,561	20,272,838	19,853,443
Non-current assets	33,726,206	8,021,166	34,721,946	35,736,050
Current liabilities	21,007,556	28,454,306	20,173,166	19,812,356
Non-current liabilities	18,840,873	4,528,463	17,455,010	9,499,228
Redeemable non-controlling interests	—	—	101,542	—
Non-controlling interests	—	—	42,376	118,632
Equity attributable to owners of the Company	4,304,789	3,175,958	17,222,690	26,159,277
Reconciliation to carrying amounts:				
Group's share of net assets attributable to owners of the associates	1,269,913	936,908	1,160,011	1,768,039
Adjustment				
— Goodwill	—	—	2,609,433	2,609,433
Carrying amount	1,269,913	936,908	3,769,444	4,377,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

	XW Bank		iQIYI	
	Year ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income				
Revenues	2,680,662	1,160,403	28,993,658	24,989,116
Profit/(loss) from operations	1,302,822	461,099	(9,728,508)	(8,420,635)
Profit/(loss) before tax	1,302,121	460,343	(10,695,558)	(9,096,829)
Net profit/(loss)	1,133,181	371,470	(10,747,410)	(9,175,630)
Other comprehensive (loss)/income	—	(711)	226,772	1,786,820
Total comprehensive income/(loss)	1,133,181	370,759	(10,520,638)	(7,388,810)

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	4,261,150	3,324,858
Aggregate amounts of the Group's share of:		
Net loss	(271,592)	(108,184)
Other comprehensive (loss)/income	(5,996)	45,587
Total comprehensive loss	(277,588)	(62,597)

There are no contingent liabilities relating to the Group's interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

12 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2019 and 2018 are analyzed as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Current income tax	2,228,609	1,414,602
Deferred income tax (Note 34)	(168,913)	(965,225)
Income tax expenses	2,059,696	449,377

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	12,162,646	13,927,124
Tax calculated at statutory income tax rate of 25% in mainland China (Note (a))	3,040,662	3,481,781
Tax effects of:		
— Effect of different tax rates in other jurisdictions (Note (b),(c),(d))	(617,082)	(2,037,227)
— Preferential income tax rates applicable to subsidiaries (Note (e))	(1,055,387)	(1,017,178)
— Tax losses and temporary differences for which no deferred income tax assets was recognized	347,222	115,452
— Expenses not deductible for income tax purposes	721,596	588,839
— Utilization of previously unrecognized deductible tax losses and temporary differences	(25,515)	(89,626)
— Recognition of previously unrecognized deductible tax losses and temporary differences	(285,756)	—
— Super Deduction for research and development expenses (Note (f))	(301,835)	(166,794)
— Income not subject to tax	(117,241)	(157,306)
— Tax refund (Note (e))	—	(270,757)
— Reversal of deferred income tax assets	350,959	—
— Others	2,073	2,193
Income tax expenses	2,059,696	449,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses (continued)

Notes:

(a) Enterprise income tax in mainland China ("**EIT**")

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the fair value gain of Preferred Shares (Note 35) and the share-based payments (Note 28), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("**BVI**") are exempt from BVI income taxes.

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax of which the tax rate was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess.

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 35% before April 1, 2019, after then 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Accordingly, Xiaomi Mobile was entitled to tax refund for the income tax paid in 2017 and such tax refund was received by Xiaomi Mobile from local tax bureau in December 2018. Xiaomi Mobile enjoys the preferential EIT rate of 10% for the years ended December 31, 2019 and 2018.

Beijing Xiaomi Digital Technology Co., Ltd. was qualified as a "High and New Technology Enterprise" in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020.

(f) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The State Taxation Administration of The People's Republic of China announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses (continued)

Notes (continued):

(g) Withholding tax in mainland China ("**WHT**")

According to the New Corporate Income Tax Law ("**New EIT Law**"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings was accrued as of the end of each reporting period.

13 Earnings per share

On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US$0.000025 each in the share capital of the Company were subdivided into 10 shares of US$0.0000025 each ("**Share Subdivision**"). Following the Share Subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended December 31, 2018 has been retrospectively adjusted.

(a) Basic

Basic earnings per share for the years ended December 31, 2019 and 2018 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	10,044,164	13,553,886
Weighted average number of ordinary shares in issue (thousand shares)	23,746,463	16,069,770
Basic earnings per share (expressed in RMB per share)	0.423	0.843

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Earnings per share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	10,044,164	13,553,886
Less: fair value gain of Preferred Shares	—	(12,514,279)
Net profit used to determine diluted earnings per share	10,044,164	1,039,607
Weighted average number of ordinary shares in issue (thousand shares)	23,746,463	16,069,770
Adjustments for Preferred Shares (thousand shares)	—	5,468,315
Adjustments for RSUs and share options granted to employees (thousand shares)	762,301	2,024,845
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,508,764	23,562,930
Diluted earnings per share (expressed in RMB per share)	0.410	0.044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2019						
Cost	642,723	33,932	—	564,076	4,543,071	5,783,802
Accumulated depreciation	(379,599)	(15,627)	—	(320,523)	—	(715,749)
Net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Year ended December 31, 2019						
Opening net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Currency translation differences	288	50	—	(2,950)	1	(2,611)
Additions	372,180	2,274	—	247,015	2,511,206	3,132,675
Transfer from construction in progress to buildings	—	—	2,974,650	—	(2,974,650)	—
Disposal	(50,990)	(10,836)	—	(28,579)	(31,690)	(122,095)
Transfer to investment properties (Note 17)	—	—	(707,268)	—	(52,512)	(759,780)
Depreciation charge (Note 8)	(126,176)	(2,420)	(17,636)	(177,679)	—	(323,911)
Closing net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
At December 31, 2019						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	—	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment (continued)

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2018						
Cost	422,515	14,317	—	331,083	1,473,761	2,241,676
Accumulated depreciation	(297,588)	(11,870)	—	(201,346)	—	(510,804)
Net book amount	124,927	2,447	—	129,737	1,473,761	1,730,872
Year ended December 31, 2018						
Opening net book amount	124,927	2,447	—	129,737	1,473,761	1,730,872
Currency translation differences	(330)	(13)	—	(1,010)	13	(1,340)
Additions	242,843	19,612	—	243,364	3,119,183	3,625,002
Disposals/transfer	(17,071)	(1)	—	—	(49,886)	(66,958)
Depreciation charge (Note 8)	(87,245)	(3,740)	—	(128,538)	—	(219,523)
Closing net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
At December 31, 2018						
Cost	642,723	33,932	—	564,076	4,543,071	5,783,802
Accumulated depreciation	(379,599)	(15,627)	—	(320,523)	—	(715,749)
Net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053

Construction in progress as of December 31, 2019 and 2018 mainly comprises new office buildings being constructed in mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Administrative expenses	109,466	61,216
Selling and marketing expenses	124,624	98,941
Research and development expenses	75,223	59,366
Cost of sales	14,598	—
	323,911	219,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019					
Cost	282,090	1,408,219	1,084,466	224,578	2,999,353
Accumulated amortization	—	(395,806)	(416,547)	(125,808)	(938,161)
Net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Year ended December 31, 2019					
Opening net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Currency translation differences	—	(29)	(1,200)	402	(827)
Additions	—	18,820	6,461	116,231	141,512
Disposals	(33,923)	—	(9,889)	(277)	(44,089)
Amortization charge (Note 8)	—	(331,803)	(112,481)	(41,502)	(485,786)
Closing net book amount	248,167	699,401	550,810	173,624	1,672,002
At December 31, 2019					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	—	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets (continued)

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2018					
Cost	248,167	1,343,686	1,003,239	107,792	2,702,884
Accumulated amortization	—	(63,735)	(280,034)	(84,763)	(428,532)
Net book amount	248,167	1,279,951	723,205	23,029	2,274,352
Year ended December 31, 2018					
Opening net book amount	248,167	1,279,951	723,205	23,029	2,274,352
Currency translation differences	—	—	(10,049)	(106)	(10,155)
Additions	33,923	71,723	110,283	116,949	332,878
Disposals	—	(7,190)	—	—	(7,190)
Amortization charge (Note 8)	—	(332,071)	(155,520)	(41,102)	(528,693)
Closing net book amount	282,090	1,012,413	667,919	98,770	2,061,192
At December 31, 2018					
Cost	282,090	1,408,219	1,084,466	224,578	2,999,353
Accumulated amortization	—	(395,806)	(416,547)	(125,808)	(938,161)
Net book amount	282,090	1,012,413	667,919	98,770	2,061,192

Note:

(a) For the purpose of impairment tests of goodwill, goodwill is allocated to groups of cash-generating units. Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets (continued)

Note (continued):

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2019 and 2018 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations by using the discounted cash flow method. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2%. Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2019 and 2018.

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Administrative expenses	33,968	77,468
Selling and marketing expenses	1,080	648
Research and development expenses	450,738	450,577
	485,786	528,693

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2019 and 2018, no goodwill or other identifiable intangible assets have been impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Leases

	As of December 31, 2019 RMB'000	As of January 1, 2019 RMB'000
(i) The consolidated balance sheet includes the following amounts relating to leases:		
Right-of-use assets (Note(a))		
Land use rights	2,859,297	3,389,731
Properties	915,581	859,454
Other assets	58,222	32,754
	3,833,100	4,281,939
Lease liabilities (Note(b))		
Current	(399,444)	(285,402)
Non-current	(560,804)	(573,431)
	(960,248)	(858,833)

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.

(b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Leases (continued)

	Year ended December 31, 2019 RMB'000
(ii) The consolidated income statement shows the following amounts relating to leases:	
Depreciation charge of right-of-use assets	571,336
Interest expense (included in finance income, net)	45,881
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	563,400
	1,180,617

Besides land use rights, the Group leases offices, warehouses, retail stores and servers. No variable lease payments were contained in lease contracts during the year ended December 31, 2019.

The total cash outflow in financing activities for leases during the year ended December 31, 2019 was RMB578,063,000, including principal elements of lease payments of approximately RMB532,182,000 and related interest paid of approximately RMB45,881,000, respectively.

17 Other non-current assets

	As of December 31,	
	2019 RMB'000	2018 RMB'000
Right-of-use assets (Note 16)	3,833,100	—
Investment properties (Note (a))	1,250,932	—
Long-term bank deposits	590,157	992
Others	488,314	94,493
	6,162,503	95,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note:

(a) Investment properties

	Buildings and facilities RMB'000	Land use right RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2019	—	—	—	—
Transfer from property and equipment	711,432	—	52,512	763,944
Transfer from right-of-use assets	—	504,895	—	504,895
Addition	—	—	26,801	26,801
At December 31, 2019	711,432	504,895	79,313	1,295,640
ACCUMULATED DEPRECIATION				
At January 1, 2019	—	—	—	—
Charge for the year (Note 8)	(26)	—	—	(26)
Transfer from property and equipment	(4,164)	—	—	(4,164)
Transfer from right-of-use assets	—	(40,518)	—	(40,518)
At December 31, 2019	(4,190)	(40,518)	—	(44,708)
NET BOOK VALUE				
At December 31, 2019	707,242	464,377	79,313	1,250,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2019 are as follows:

	As of December 31, 2019	
	Carrying amount RMB'000	Fair value (level 3) RMB'000
Investment property units located in Haidian, Beijing	1,148,225	1,557,120

The investment property units located in Haidian, Beijing were valued at December 31, 2019 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalisation of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31, 2019. The key inputs were term yield and reversionary yield.

The above investment properties are leased to tenants under operating leases with rentals payable semiannually. Lease payments for the contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties as disclosed above.

(ii) Property rental income earned during the year ended December 31, 2019 was approximately RMB8,746,000. The investment property units located in Haidian, Beijing has committed tenants for the next 6 years. The investment properties in constructions located in Yizhuang, Beijing has committed tenants for the next 14 years. As of December 31, 2019, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31, 2019 RMB'000
No later than 1 year	94,722
Later than 1 year and no later than 14 years	570,070
	664,792

(iii) Depreciation charges of approximately RMB26,000 for the year ended December 31, 2019 have been charged in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

18 Financial instruments by category

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets measured at fair value through profit or loss:		
— Long-term investments measured at fair value through profit or loss (Note 19)	20,679,363	18,636,208
— Short-term investments measured at fair value through profit or loss (Note 19)	16,463,390	6,648,526
Financial assets measured at amortized costs:		
— Trade receivables (Note 21)	6,948,567	5,598,443
— Loan receivables (Note 20)	12,723,503	10,293,645
— Other receivables	12,246,498	12,408,170
— Long-term bank deposits (Note 17)	590,157	992
— Short-term bank deposits (Note 24(c))	21,523,043	1,365,991
— Restricted cash (Note 24(b))	1,538,266	1,480,178
— Cash and cash equivalents (Note 24(a))	25,919,861	30,230,147
	118,632,648	86,662,300
Liabilities as per balance sheet		
Financial liabilities measured at amortized cost:		
— Trade payables (Note 30)	59,527,940	46,287,271
— Other payables	6,080,191	4,805,101
— Borrowings (Note 33)	17,623,411	10,931,337
— Investment from fund investors (Note 29)	3,074,210	2,823,504
— Lease liabilities (Note 16)	960,248	—
	87,266,000	64,847,213

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Investments

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Current assets		
Short-term investments measured at fair value through profit or loss (i)	16,463,390	6,648,526
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments (ii)	7,272,454	7,629,929
— Preferred shares investments (iii)	13,406,909	11,006,279
	20,679,363	18,636,208

(i) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of return ranging from 1.76% to 4.60% per annum for the year ended December 31, 2019 (2018: 2.20% to 5.15%). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

19 Investments (continued)

(ii) Equity investments

	As of December 31, 2019 RMB'000	2018 RMB'000
Listed	**4,778,263**	5,215,898
Unlisted	**2,494,191**	2,414,031
	7,272,454	7,629,929

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of December 31, 2019, the Group has not elected to recognize the fair value gains or losses on equity investments in OCI.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

(iii) Preferred shares investments

During the year ended December 31, 2019, the Group made aggregate preferred shares investments of RMB2,675,086,000 (2018: RMB1,102,118,000). These investees are principally engaged in sales of goods and provision of internet services.

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Investments (continued)

(iii) Preferred shares investments (continued)

The conversion of the preference shares in Ninebot and Sunmi owned by the Group into ordinary shares was completed on April 17, 2019 and June 28, 2019, respectively, following which the Group reclassifies the investments to be accounted for using the equity method (Note 11(b)).

(iv) Amounts recognized in profit or loss

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Fair value changes on equity investments	2,322,349	(1,386,967)
Fair value changes on preferred shares investments	1,452,273	5,793,800
Fair value changes on short-term investments measured at fair value through profit or loss	38,390	23,526
	3,813,012	4,430,359

20 Loan receivables

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Unsecured loan	14,393,240	10,995,510
Less: credit loss allowance	(1,669,737)	(701,865)
	12,723,503	10,293,645

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Third parties	6,740,321	5,302,432
Related parties	324,027	364,608
	7,064,348	5,667,040
Less: credit loss allowance	(115,781)	(68,597)
	6,948,567	5,598,443

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
RMB	3,757,863	3,285,845
INR	1,758,770	1,464,621
US$	1,239,122	795,971
Others	192,812	52,006
	6,948,567	5,598,443

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Trade receivables (continued)

Movements on the Group's credit loss allowance of trade receivables are as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	(68,597)	(56,820)
Credit loss allowance recognized, net	(79,712)	(11,777)
Receivables written off during the year as uncollectable	32,528	—
At the end of the year	(115,781)	(68,597)

(a) The Group generally allows a credit period within 180 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	6,076,873	5,094,390
3 to 6 months	550,929	392,868
6 months to 1 year	308,197	116,279
1 to 2 years	98,643	16,630
Over 2 years	29,706	46,873
	7,064,348	5,667,040

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Trade receivables (continued)

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses below also incorporate forward looking information. The loss provisions as of December 31, 2018 and 2019 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2019:					
Expected loss rate	0.03%	1.29%	9.55%	50.14%	
Gross carrying amount (in thousand)	5,822,380	856,086	222,699	163,183	7,064,348
Loss provision (in thousand)	1,627	11,066	21,269	81,819	115,781
December 31, 2018:					
Expected loss rate	0.01%	0.99%	34.22%	52.85%	
Gross carrying amount (in thousand)	4,992,793	532,901	64,006	77,340	5,667,040
Loss provision (in thousand)	562	5,261	21,902	40,872	68,597

As of December 31, 2019 and 2018, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Prepayments and other receivables

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	9,292,072	10,043,378
Recoverable value-added tax and other taxes	6,782,745	7,811,161
Prepayments to suppliers	394,090	467,418
Deposits to suppliers	375,868	569,598
Receivables from market development fund	895,773	822,809
Prepaid fees for patent expenses and other prepaid expenses	413,685	228,197
Receivables from import and export agents	186	52,263
Receivables from employees related to Employee Fund (Note (a))	103,900	110,950
Interest receivables	254,912	231,819
Receivables from disposal of investments	4,306	35,226
Loans to related parties (Note (b))	37,802	7,979
Receivables related to share options and RSUs granted to employees	862,545	—
Others	419,134	534,148
	19,837,018	20,914,946

Notes:

(a) Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 28.

(b) Loans to related parties were unsecured, repayable on demand and carried interest rate at ceiling of 8% per annum (2018: 8%).

As of December 31, 2019 and 2018, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, receivables from import and export agents, receivables from market development fund, receivables from employees related to Employee Fund, receivables from disposal of investments, interest receivables, loans to related parties, receivables related to share options and RSUs granted to employees and others were considered to be of low credit risk, and thus credit loss allowance recognized during the year ended December 31, 2019 and 2018 was limited to 12 months expected losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

23 Inventories

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Raw materials	9,347,930	7,343,118
Finished goods	18,030,136	19,112,105
Work in progress	2,422,504	2,068,834
Spare parts	1,733,042	1,156,825
Others	1,925,785	1,651,854
	33,459,397	31,332,736
Less: provision for impairment (Note (a))	(873,959)	(1,852,051)
	32,585,438	29,480,685

Note:

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB3,859,675,000 for the year ended December 31, 2019 (2018: RMB3,006,525,000).

Provision for impairment movements for the years ended December 31, 2019 and 2018 are as below:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	(1,852,051)	(668,142)
Provision for impairment	(3,859,675)	(3,006,525)
Transfer to cost of sales upon sold	4,837,767	1,822,616
At the end of the year	(873,959)	(1,852,051)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Cash at bank and in hand	**13,355,455**	10,958,910
Short-term bank deposits with initial terms within three months	**12,564,406**	19,271,237
	25,919,861	30,230,147

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
US$	**10,322,132**	22,189,594
RMB	**9,217,142**	7,192,491
INR	**3,500,056**	532,838
Others	**2,880,531**	315,224
	25,919,861	30,230,147

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 2.76% per annum for the year ended December 31, 2019 (2018: 3.24%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Cash and bank balances (continued)

(b) Restricted cash

As of December 31, 2019, among of the restricted cash, RMB700,987,000 was held at bank to meet requirements of People's Bank of China for reserves of payment institutions, US$84,260,000 (equivalent to approximately RMB587,815,000) was held at Bank of China as guarantee for bank loans. RMB149,427,000 was held at Bank of Ningbo as guarantee for bank acceptance bills.

(c) Short-term bank deposits

An analysis of the Group's short-term bank deposits as of December 31, 2019 and 2018 are listed as below:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Short-term bank deposits denominated in RMB	—	460,000
Short-term bank deposits denominated in INR	392,823	49
Short-term bank deposits denominated in US$	20,597,231	905,942
Short-term bank deposits denominated in HK$	532,989	—
	21,523,043	1,365,991

Short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity.

The effective interest rate of the short-term bank deposits of the Group ranges from 2.38% to 7.30% per annum for the year ended December 31, 2019 (2018: from 2.25% to 6.00%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares

(a) Share capital

Authorized:

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Number of Preferred Shares '000	Nominal value of Preferred Shares US$'000
As of January 1, 2018		3,489,594	87	1,051,251	26
Effect of Share Subdivision	(a)	31,406,344	—	9,461,254	—
Conversion of Preferred Shares to ordinary shares	(b)	10,512,505	26	(10,512,505)	(26)
Increase of authorized ordinary shares	(c)	224,591,557	561	—	—
As of December 31, 2018 and 2019		**270,000,000**	**674**	**—**	**—**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares (continued)

(a) Share capital (continued)

Issued:

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2018		978,217	24	150	742,760
Acquisition of additional equity interests in non-wholly owned subsidiaries	(d)	1,500	—	—	230,899
Issuance of ordinary shares	(e)	63,960	2	11	9,827,146
Effect of Share Subdivision	(a)	9,393,092	—	—	—
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	(f)	1,635,926	4	27	23,248,593
Conversion of Preferred Shares to ordinary shares	(b)	10,504,922	26	174	151,100,334
Release of ordinary shares from Share Scheme Trust	(g)	—	2	15	933,592
Issuance of ordinary shares to Share Scheme Trust	(g)	1,048,806	—	—	—
Share premium set off the accumulated losses and other reserves	(h)	—	—	—	(142,232,042)
As of December 31, 2018		23,626,423	58	377	43,851,282
Exercise of share options and RSUs		690,361	1	9	1,442,634
Shares repurchased and cancelled		(227,956)	—	1	(1,882,527)
Issuance of ordinary shares to Share Scheme Trusts	(g)	18,567	—	—	—
Release of ordinary shares from Share Scheme Trusts	(g)	—	—	1	167,447
As of December 31, 2019		24,107,395	59	388	43,578,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares (continued)

(a) Share capital (continued)

Notes:

(a) On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US$0.000025 each in the share capital of the Company were subdivided into 10 shares of US$0.0000025 each.

(b) Upon completion of the initial public offering ("**IPO**"), each issued Preferred Share converted into one Class B ordinary share by re-designation and reclassification of every Preferred Share in issue as an Class B ordinary share on a one for one basis and all the unissued and authorized Preferred Shares were re-designated and reclassified as Class B ordinary shares. As a result, the financial liabilities for Preferred Shares were derecognized and recorded as share capital and share premium.

(c) Upon completion of the re-designation and reclassification noted in (b), the authorized share capital of the Company increased 63,116,143,000 Class A ordinary shares of nominal value of US$0.0000025 each and 161,475,414,000 Class B ordinary shares of nominal value of US$0.0000025 each.

(d) Pursuant to the shareholders' resolution passed on March 30, 2018, 1,500,000 Class B ordinary shares (or 15,000,000 Class B ordinary shares following the Share Subdivision) were issued as consideration shares in exchange for certain indirect equity interests in subsidiary Timi Personal Computing Co., Ltd..

(e) On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

(f) Upon completion of the IPO, the Company issued 1,635,926,000 new shares at par value of US$0.0000025 each for cash consideration of HK$17.00 each, and raised gross proceeds of approximately HK$27,810,742,000 (equivalent to RMB23,525,107,000). The respective share capital amount was approximately RMB27,000 and share premium arising from the issuance was approximately RMB23,248,593,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB276,487,000 were treated as a deduction against the share premium arising from the issuance.

(g) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "**Share Scheme Trusts**").

(h) On December 27, 2018, the Board of Directors passed a resolution that the sum of approximately of RMB142,232,042,000 standing to the credit of the share premium account of the Company was applied to set off the accumulated losses and other reserves of the Company. The accumulated losses of RMB136,652,570,000 was set off and the related currency translation difference of RMB5,579,472,000 was released.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares (continued)

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2018 and 2019	—	—
Shares repurchased	358,196	2,932,111
Shares cancelled	(227,956)	(1,879,289)
As of December 31, 2019	130,240	1,052,822

During the year ended December 31, 2019, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
January 2019	19,972	10.20	9.74	199,931,233
June 2019	97,928	10.04	8.96	925,210,318
July 2019	7,610	10.00	9.70	74,840,553
September 2019	91,254	9.38	8.73	824,790,890
October 2019	31,115	9.12	8.82	280,023,901
November 2019	44,828	9.00	8.79	399,982,282
December 2019	65,489	9.09	8.85	589,464,196
Total	358,196			3,294,243,373

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Other reserves

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019	5,333,233	43,442	862,680	—	(55,913)	263,973	6,447,415
Appropriation to statutory reserves (Note (a))	—	—	295,047	—	—	—	295,047
Appropriation to general reserves	—	—		2	—	—	2
Employees share-based compensation scheme:							
— value of employee services (Note (c) and Note 28)	2,127,878	—	—	—	—	—	2,127,878
— exercise of share options and restricted stock units	(1,184,767)	—	—	—	—	—	(1,184,767)
Share of other comprehensive income of investments accounted for using the equity method (Note 11(b))	—	—	—	—	—	9,279	9,279
Share of other reserves of investments accounted for using the equity method (Note 11(b))	—	—	—	—	229,740	—	229,740
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	—	(173,904)	—	(173,904)
Currency translation differences (Note (b))	—	419,471	—	—	—	—	419,471
Release of ordinary shares from Share Scheme Trust (Note 25(a)(g))	(139,015)	—	—	—	—	—	(139,015)
At December 31, 2019	6,137,329	462,913	1,157,727	2	(77)	273,252	8,031,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

26 Other reserves (continued)

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Others RMB'000	Total RMB'000
At January 1, 2018	3,816,153	(3,779,938)	805,180	33,501	72,524	947,420
Appropriation to statutory reserves (Note (a))	—	—	57,808	—	—	57,808
Employees share-based compensation scheme:						
— value of employee services (Note (c) and Note 28)	2,358,720	—	—	—	—	2,358,720
Share of other comprehensive income of investments accounted for using the equity method (Note 11(b))	—	—	—	—	191,449	191,449
Share of other reserves of investments accounted for using the equity method (Note 11(b))	—	—	—	62,657	—	62,657
Acquisition of additional equity interests in non-wholly owned subsidiaries	—	—	—	(152,071)	—	(152,071)
Currency translation differences (Note (b))	—	(1,756,092)	—	—	—	(1,756,092)
Share premium set off the accumulated losses and other reserves (Note 25(a)(h))	—	5,579,472	—	—	—	5,579,472
Release of ordinary shares from Share Scheme Trust (Note 25(a)(g))	(841,640)	—	—	—	—	(841,640)
Others	—	—	(308)	—	—	(308)
At December 31, 2018	5,333,233	43,442	862,680	(55,913)	263,973	6,447,415

26 Other reserves (continued)

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 28 for detail.

27 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-Based Payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("**2011 Plan**") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the "2012 Employee Stock Incentive Plan" ("**Pre-IPO ESOP**"). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900 as of December 31, 2019 and 2018. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 2,237,613,083 Class B ordinary shares. As of December 31, 2019, no option has been granted or agreed to be granted pursuant to Post-IPO Share Option Scheme.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the number of outstanding awarded shares, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision. However, the number of share options, average exercise price per share option, fair value of share options, key assumptions of fair value of share options, number of RSUs and weighted average grant date fair value per RSU for the year ended December 31, 2018 stated below were before the adjustment for the Share Subdivision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP

Share options granted to employees

The share options have graded vesting terms, and vest in different schedules from the grant date over one year, 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as one year, all granted share options are vested on the first anniversary of the grant date. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months. For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date. For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively. For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

Under Pre-IPO ESOP, the Company also granted performance-based share options to certain employees, which are generally vested over a 10-year term. The performance goals are determined by the Board of Directors. For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

The options may be exercised at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the share options that have become vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2019	**1,433,597,913**	**0.10**
Forfeited during the year	**(54,982,220)**	**0.31**
Transferred to Share Scheme Trust (Note 25(a)(g))	**(42,306,480)**	**0.10**
Exercised during the year	**(480,507,306)**	**0.04**
Outstanding as of December 31, 2019	**855,801,907**	**0.12**
Exercisable as of December 31, 2019	**340,290,647**	**0.20**
Outstanding as of January 1, 2018 (Note (a))	189,755,311	1.05
Granted during the year (Note (a))	42,500,561	1.98
Forfeited during the year (Note (a))	(3,857,990)	3.26
Transferred to Share Scheme Trust (Note (a), Note 25(a)(g))	(85,038,091)	1.58
Effect of Share Subdivision (Note (b))	1,290,238,122	
Outstanding as of December 31, 2018	1,433,597,913	0.10
Exercisable as of December 31, 2018	703,071,315	0.09

Notes:

(a) The numbers of shares were presented as before the effect of the Share Subdivision.

(b) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

The weighted-average remaining contract life for outstanding share options was 6.22 years as of December 31, 2019 (2018: 6.60 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31, 2018
Fair value per share (Note (a))	US$22.99–24.48
Exercise price (Note (a))	US$1.02–3.44
Risk-free interest rate	3.12%–3.68%
Dividend yield	—
Expected volatility	41.57%–43.21%
Expected terms	10 years

Note:

(a) The fair value per share and the exercise price presented was before the effect of the Share Subdivision.

The weighted-average fair value of granted shares was US$21.80 (which was adjusted to US$2.18 after the Share Subdivision on June 17, 2018) per share for the year ended December 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

RSUs granted to employees

The Company also granted RSUs to the Company's employees under Pre-IPO ESOP. The RSUs granted would vest on the second anniversary from the grant date, and in equal tranches over the remaining years of total vesting period as four or five years, on condition that employees remain in service without any performance requirements.

The RSUs may be settled at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the RSUs that have become vested.

Movements in the number of RSUs granted to the Company's employees under Pre-IPO ESOP and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2019	207,161,980	0.23
Exercised during the year	(207,161,980)	0.23
Outstanding as of December 31, 2019	—	—
Vested as of December 31, 2019	—	—
Outstanding as of January 1, 2018 (Note (a))	24,492,747	2.94
Forfeited during the year (Note (a))	(3,776,549)	6.36
Effect of Share Subdivision (Note (b))	186,445,782	
Outstanding as of December 31, 2018	207,161,980	0.23
Vested as of December 31, 2018	206,921,978	0.23

Notes:

(a) The numbers of shares were presented as before the effect of the Share Subdivision.

(b) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

RSUs granted to employees (continued)

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Group with best estimate.

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statement for aforementioned share-based awards granted to the Group's employees are RMB1,898,081,000 for the year ended December 31, 2019 (2018: RMB2,358,917,000).

Share based awards granted to Lei Jun

On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("**Xiaomi Finance**") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as the grant date. Key valuation assumptions include discount rate (post-tax) of 18.5%, risk-free interest rate of 3.99%, volatility of 46%. Accordingly, RMB102,608,000 was recognized as share-based compensation expenses on June 17, 2018 by the Group.

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Share Award Scheme

RSUs granted to employees

The Company granted performance-based RSUs to the Company's employees under Share Award Scheme. The RSUs granted would vest in different schedules from the service commencement date over one year, 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as one year, all granted RSUs are vested on the first anniversary of the service commencement date. For vesting schedule as 4 years, 25% of granted RSUs are vested on every anniversary of the service commencement date over the vesting period. For vesting schedule as 5 years, 40% of granted RSUs are vested on the second anniversary of the service commencement date, and every 20% of granted RSUs are vested on the third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 20% of granted RSUs are vested on the second anniversary of the service commencement date, and every 10% of granted RSUs are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

Movements in the number of RSUs granted to the Company's employees granted under Share Award Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2019	—	—
Granted during the year	98,449,031	1.20
Forfeited during the year	(5,415,702)	1.22
Transferred to Share Scheme Trust (Note 25(a)(g))	(234,396)	1.45
Exercised during the year	(2,692,000)	1.39
Outstanding as of December 31, 2019	90,106,933	1.20
Exercisable as of December 31, 2019	40,000	1.45

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 9.45 years as of December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Share Award Scheme (continued)

RSUs granted to employees (continued)

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The total expenses recognized in the consolidated income statement for RSUs granted to the Group's employees under Share Award Scheme are RMB229,886,000 for the year ended December 31, 2019.

Employee fund

On August 31, 2014, the Board of Directors of the Company approved the establishment of the Employee Fund with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "**Lockup Period**"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of December 31, 2019.

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB73,755,000 for the year ended December 31, 2019 (2018: RMB91,986,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Other non-current liabilities

	As of December 31, 2019 RMB'000	2018 RMB'000
Liabilities to fund investors (Note (a))	3,074,210	2,823,504
Lease liability (Note 16)	560,804	—
Others	121,197	21,355
	3,756,211	2,844,859

Note:

(a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "**Hubei Fund**"). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

30 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2019 and 2018, the carrying amounts of trade payables were primarily denominated in RMB, US$ and INR.

Trade payables and their aging analysis based on invoice date are as follows:

	As of December 31, 2019 RMB'000	2018 RMB'000
Up to 3 months	57,942,872	44,312,748
3 to 6 months	1,136,595	1,656,699
6 months to 1 year	342,864	266,623
1 to 2 years	55,709	50,350
Over 2 years	49,900	851
	59,527,940	46,287,271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

31 Other payables and accruals

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Amounts collected for third parties	1,428,500	1,628,230
Payroll and welfare payables	1,165,183	795,593
Deposits payable	1,114,853	953,132
Employee Fund (Note 28)	604,187	553,108
Accrual expenses	1,202,807	499,295
Payables for construction cost	1,275,467	619,935
Payables for investments	2,500	222,382
Other taxes payables	624,350	192,182
Lease liabilities (Note 16)	399,444	—
Payables related to share options and RSUs granted to employees	484,896	—
Others	799,156	848,913
	9,101,343	6,312,770

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2019 and 2018.

32 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Contract liabilities are presented in advance from customers, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2019, the total contract liabilities amounted to RMB7,248,982,000 (2018: RMB4,054,595,000), which will be recognized as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

33 Borrowings

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities (Note (a))	2,305,000	2,752,815
Fund raised through trusts (Note (b))	450,000	—
Secured borrowings (Note (c))	1,825,856	1,260,941
Unsecured borrowings (Note (d))	206,000	3,842,387
	4,786,856	7,856,143
Included in current liabilities		
Asset-backed securities (Note (a))	2,647,641	586,282
Fund raised through trusts (Note (b))	420,000	648,390
Secured borrowings (Note (c))	1,796,701	—
Unsecured borrowings (Note (d))	7,972,213	1,840,522
	12,836,555	3,075,194

Notes:

(a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("**ABS**"). As of December 31, 2019, the total ABS amounting to RMB4,952,641,000 (2018: RMB3,339,097,000) bore interest at 4.15%-7.74% per annum.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of December 31, 2019, the fund raised through trust amounting to RMB870,000,000 (2018: RMB648,390,000) bore interest at 7.29%-8.00% per annum in 2019. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2020 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

33 Borrowings (continued)

Notes (continued):

(c) As of December 31, 2019, RMB2,225,856,000 (2018: RMB1,260,941,000) of borrowings were secured by construction in progress and land use rights amounting to approximately RMB4,082,853,000 (2018: RMB4,082,853,000). The interest rate of these borrowings was 4.66%-4.90% per annum. RMB400,000,000 of these borrowings should be repaid in 2020, the remaining amounts with RMB1,443,920,000 should be repaid by the end of March 23, 2027, RMB63,387,000 should be repaid by the end of December 12,2027 and RMB318,549,000 should be repaid by the end of September 27, 2032.

As of December 31, 2019, RMB808,886,000 (2018: nil) of short term borrowings were secured by commercial paper, RMB587,815,000 (2018: nil) of short term borrowings were secured by restricted deposits.

(d) As of December 31, 2019, the Group had US$500,000,000 (equivalent to approximately RMB3,488,100,000) unsecured borrowings relating to a three-year bank loan facility agreement entered into on July 26, 2017 with the available commitment US$1,000,000,000 (equivalent to approximately RMB6,976,200,000) including US$500,000,000 (equivalent to approximately RMB3,488,100,000) term loan and US$500,000,000 (equivalent to approximately RMB3,488,100,000) revolving loan, which should be repaid by the Group on July 25, 2020.

The Group had RMB1,411,718,000 (2018: nil) unsecured borrowings with interest rate 4.20% per annum, RMB77,923,000 (2018: nil) unsecured borrowings with interest rate 2.82% per annum, RMB249,216,000 (2018: nil) unsecured borrowings with interest rate 4.13% per annum, RMB190,000,000 (2018: nil) unsecured borrowings with interest rate 6.43% per annum, RMB1,500,000,000 (2018: nil) unsecured borrowings with interest rate 2.92% per annum, RMB667,763,000 (2018: nil) unsecured borrowings with interest rate 6-month London Inter Bank Offered Rate ("**LIBOR**") + 1% per annum. All of these borrowings should be repaid by the Group in 2020.

The Group had RMB400,000,000 (2018: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in 2020.

The Group had RMB206,000,000 (2018: nil) unsecured borrowings with interest rate 4.66% per annum which should be repaid by the end of November 26, 2029.

For the year ended December 31, 2019, the interest rate of the interest-bearing liabilities ranges from 2.82% to 8.00% per annum (2018: from 2.22% to 9.00%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB122,961,000 as of December 31, 2019 (2018: RMB93,750,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	560,577	625,671
— to be recovered within 12 months	845,799	780,324
	1,406,376	1,405,995
Deferred income tax liabilities:		
— to be settled after 12 months	(700,275)	(870,082)
— to be settled within 12 months	(2,588)	(1,313)
	(702,863)	(871,395)

The gross movement on the deferred income tax assets is as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	1,405,995	721,389
Credited to the consolidated income statement	381	684,606
At the end of the year	1,406,376	1,405,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

The gross movement on the deferred income tax liabilities is as follows:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
At the beginning of the year	(871,395)	(1,148,464)
Credited to the consolidated income statement	168,532	280,619
Acquisition of a subsidiary	—	(3,550)
At the end of the year	(702,863)	(871,395)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions RMB'000	Provision for impairment of inventories RMB'000	Depreciation of property and amortization of intangible assets RMB'000	Tax losses RMB'000	Fair value changes of financial assets RMB'000	Credit loss allowance RMB'000	Unrealized gain on intra-group transactions RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019	231,460	385,369	93,677	359,199	80,341	92,961	156,440	6,548	1,405,995
Credited/(debited) to consolidated income statement	100,898	(265,570)	(4,192)	13,707	274	49,892	94,350	11,022	381
At December 31, 2019	332,358	119,799	89,485	372,906	80,615	142,853	250,790	17,570	1,406,376
At January 1, 2018	267,649	148,193	93,119	62,019	55,991	41,186	44,696	8,536	721,389
(Debited)/credited to consolidated income statement	(36,189)	237,176	558	297,180	24,350	51,775	111,744	(1,988)	684,606
At December 31, 2018	231,460	385,369	93,677	359,199	80,341	92,961	156,440	6,548	1,405,995

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

As of December 31, 2019, the Group did not recognize deferred income tax assets of RMB966,068,000 (2018: RMB520,995,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB3,479,308,000 (2018: RMB2,293,425,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2019 amounting to RMB27,395,000 (2018: RMB11,237,000) can be carried forward indefinitely, and the remaining amount of RMB3,377,006,000 (2018: RMB2,025,938,000) will expire within 9 years (2018: 10 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows (continued):

Deferred income tax liabilities:

	Changes in fair value of financial assets RMB'000	Business combination RMB'000	Total RMB'000
At January 1, 2019	(868,381)	(3,014)	(871,395)
Credited to consolidated income statement	168,106	426	168,532
At December 31, 2019	(700,275)	(2,588)	(702,863)
At January 1, 2018	(1,147,419)	(1,045)	(1,148,464)
Credited to consolidated income statement	279,038	1,581	280,619
Acquisition of a subsidiary	—	(3,550)	(3,550)
At December 31, 2018	(868,381)	(3,014)	(871,395)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares. On July 9, 2018, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited and made an offering of 2,179,585,000 Class B ordinary shares (excluding any Class B ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$17.00 per share. All Preferred Shares were converted into Class B ordinary shares upon completion of the IPO on July 9, 2018. The fair value of each of Preferred Share on the conversion date is the Offer Price in the Global Offering. The movement of the Preferred Shares for the year ended December 31, 2018 is set out as below:

	RMB'000
At January 1, 2018	161,451,203
Changes in fair value	(12,514,279)
Currency translation differences	2,163,584
Conversion to ordinary shares	(151,100,508)
At December 31, 2018	—

Changes in fair value of Preferred Shares were recorded in "fair value changes of convertible redeemable preferred shares" in the consolidated income statement. Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information

(a) Cash generated from operations

	Year Ended December 31,	
	2019	2018
	RMB'000	RMB'000
Profit before income tax	12,162,646	13,927,124
Adjustments for:		
— Depreciation of property and equipment, right-of-use assets and investment properties	895,273	219,523
— Amortization of intangible assets	485,786	528,693
— Gain on disposal of property and equipment	(5,909)	(10,295)
— Credit loss allowance for trade and other receivables	83,357	33,211
— Credit loss allowance for loan receivables	1,015,619	607,180
— Impairment provision for inventories	3,859,675	3,006,525
— Interest income	(930,889)	(601,065)
— Interest expense	528,460	384,692
— Dividend income	(347,205)	(131,804)
— Share of losses of investments accounted for using the equity method	671,822	614,920
— Remeasurement of investments transferring from financial assets measured at fair value through profit or loss to investments accounted for using the equity method	—	(126,614)
— Net gains on disposals of long-term investments measured at fair value through profit or loss	—	(28,176)
— Losses on disposal of an investment accounted for using the equity method	13,376	—
— Fair value changes of convertible redeemable preferred shares	—	(12,514,279)
— Fair value gains on long-term investments measured at fair value through profit or loss	(3,813,012)	(4,430,359)
— Share-based compensation	2,201,722	12,380,668
— Foreign exchanges (gains)/losses, net	(34,632)	14,550
— Investment income from short-term investments measured at fair value through profit or loss	(386,461)	(335,695)
— Investment income from short-term investments measured at amortized cost	—	(20,199)
Operating cash flows before changes in working capital		
— Increase in inventories	(6,964,428)	(16,114,975)
— Increase in trade receivables	(1,276,714)	(91,003)
— Increase in loan receivables	(3,448,312)	(2,752,183)
— Decrease/(increase) in prepayments and other receivables	1,956,740	(9,463,591)
— (Increase)/decrease in restricted cash	(136,394)	294,753
— Increase in trade payables	13,534,575	12,627,385
— Increase in advance from customers	3,758,590	1,050,583
— Increase/(decrease) in warranty provision	983,654	(51,600)
— Increase in other payables and accruals	1,045,058	1,118,058
— Increase/(decrease) in other non-current liabilities	99,842	(13,856)
Cash generated from operations	25,952,239	122,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information (continued)

(b) Proceeds from disposal of property and equipment

In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net book amount (Note 14)	61,826	17,072
Gain on disposal of property and equipment	5,909	10,295
Proceeds from disposal of property and equipment	67,735	27,367

(c) Non-cash transactions

Other than the addition of right-of-use assets and lease liabilities described in Note 16, and the reclassification of the investment in associates measured at fair value through profit or loss to investment accounted for using the equity method as described in Note 11(b), there were no material non-cash transactions for the year ended December 31, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information (continued)

(d) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities					
	Borrowing due within 1 year RMB'000	Borrowing due after 1 year RMB'000	Convertible redeemable preferred shares RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2019	3,075,194	7,856,143	—	96,192	858,833	11,886,362
Cash flows	1,790,061	4,829,238	—	(218,994)	(578,063)	5,822,242
Accrued interest expenses	—	—	—	201,761	—	201,761
Foreign exchange adjustments	(52,214)	108,711	—	—	—	56,497
Reclassification from non-current to current	8,024,034	(8,024,034)	—	—	—	—
Leases	—	—	—	—	679,478	679,478
Others	(520)	16,798	—	—	—	16,278
Liabilities from financing activities as of December 31, 2019	12,836,555	4,786,856	—	78,959	960,248	18,662,618
Liabilities from financing activities as of January 1, 2018	3,550,801	7,251,312	161,451,203	5,742	—	172,259,058
Cash flows	(5,928,062)	5,691,840	—	(243,966)	—	(480,188)
Accrued interest expenses	—	—	—	334,416	—	334,416
Fair value changes of convertible redeemable preferred shares	—	—	(12,514,279)	—	—	(12,514,279)
Foreign exchange adjustments	(14,290)	418,950	2,163,584	—	—	2,568,244
Conversion of Preferred Shares to ordinary shares	—	—	(151,100,508)	—	—	(151,100,508)
Reclassification from non-current to current	5,466,745	(5,466,745)	—	—	—	—
Others	—	(39,214)	—	—	—	(39,214)
Liabilities from financing activities as of December 31, 2018	3,075,194	7,856,143	—	96,192	—	11,027,529

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

37 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2019 and 2018.

38 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Property and equipment	1,747,044	1,825,343
Intangible assets	28,810	57,778
Investments	217,506	137,176
	1,993,360	2,020,297

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Not later than 1 year	305,186	560,926
Later than 1 year and not later than 5 years	—	385,038
Later than 5 years	—	83,276
	305,186	1,029,240

From January 1, 2019, in accordance with IFRS 16, the Group has recognized right-of-use assets for these leases, except for certain short-term leases, see Note 16 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the year.

Company	Relationship
Nanchang Blackshark Technology Co.,Ltd. (Note 11(b))	Associate of the Group
Beijing iQIYI Science & Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai iQIYI Culture Media Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Particle Information Technology Co., Ltd. (Note (a))	Associate of the Group
Foshan Yunmi Electric Appliances Technology Co., Ltd. (Note 11(b))	Associate of the Group
Zhuhai Kingsoft Online Game Technology Co., Ltd.	Associate of the Group
Beijing Kingsoft Cloud Technology Co., Ltd.	Associate of the Group
Chengdu Qushui Science and Technology Co., Ltd. (Note (a))	Associate of the Group
Anhui Huami Information Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing SmartMi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Jiangsu Zimi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Rock Times Technology Co., Ltd. (Note 11(b))	Associate of the Group
Tiinlab Acoustic Technology Ltd. (Note (a))	Associate of the Group
Dongguan Yingsheng Electronic Technology Co., Ltd.	Associate of the Group
Shanghai Chuangmi Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Runmi Technology Co., Ltd. (Note (a))	Associate of the Group
Soocare (Shenzhen) Technology Co., Ltd. (Note (a))	Associate of the Group
Ningbo Minij Trading Co., Ltd.	Associate of the Group
Shenzhen Lumi Technology Co., Ltd. (Note (a))	Associate of the Group
Zimi Communication Technology (Jiangsu) Co., Ltd.	Associate of the Group
Longcheer Technology (Huizhou) Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Chunmi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Qingdao Yeelink Information Technology Co., Ltd. (Note (a))	Associate of the Group
21 Vianet Group Inc.	Associate of the Group
Beijing Fengmi Technology Co., Ltd. (Note (a))	Associate of the Group
Liesheng Technology (Dongguan) Co.,Ltd.	Associate of the Group
Chunmi Technology (Wuhu) Co., Ltd. (Note (a))	Associate of the Group
Nanchang Longcheer Technology Co., Ltd. (Note 11(b))	Associate of the Group
Forewin FPC (Suzhou) Co., Ltd. (Note (a))	Associate of the Group
ChingMi (Beijing) Technology Co., Ltd. (Note 11(b))	Associate of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(a) Names and relationships with related parties (continued)

Company	Relationship
Shanghai Minij Internet Technology Co., Ltd. (Note (a))	Associate of the Group
Guolong Information Technology (Shanghai) Co., Ltd.	Associate of the Group
Dreame Technology (Tianjin) Ltd. (Note (a))	Associate of the Group
Hannto Technology Co., Ltd. (Note (a))	Associate of the Group
LeXiu Technology (Hangzhou) Co., Ltd. (Note (a))	Associate of the Group
Zhejiang Xingyue Electric Equipment Co., Ltd. (Note (a))	Associate of the Group
PL-Mi (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Yuemi Technology Co., Ltd. (Note 11(b))	Associate of the Group
QingHeXiaoBei (Wuxi) Inc.	Associate of the Group
Nanjing Jiqidao Smart Technology Co., Ltd.	Associate of the Group
Miaobo Software Technology (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Miiiw Technology Co., Ltd. (Note (a))	Associate of the Group
Dongguan Powerise Fashion Technology Co., Ltd. (Note (a))	Associate of the Group
Qiji (Xiamen) Technology Co., Ltd. (Note (a))	Associate of the Group
Turok Steinhardt (Beijing) Optical Technology Co., Ltd. (Note (a))	Associate of the Group
Tianjin Smate Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing KingSmith Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Kaco Industrial Co., Ltd. (Note (a))	Associate of the Group
Beijing Madv Technology Co., Ltd. (Note (a))	Associate of the Group
XiaoHou Technology Co., Ltd. (Note (a))	Associate of the Group
Shoulder Electronics Ltd. (Note (a))	Associate of the Group
Qingping Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Ningbo Sawadika Electrical Appliance Co., Ltd. (Note (a))	Associate of the Group
Shanghai Sunmi Technology Co., Ltd. (Note (a))	Associate of the Group
MiaoMiaoCe Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Sichuan Xin Wang Bank Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Longcheer Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Runzhi Commercial Management Co., Ltd.	Associate of the Group
Shunwei Ventures II (Hong Kong) Ltd.	Controlled by a director
China Resources Land Construction Business Unit	Associate of the Group
Nanjing Bigfish Semiconductor Company Ltd. (Note 11(b))	Associate of the Group
Zhuhai Samyou Environmental Technology Co., Ltd. (Note 11(b))	Associate of the Group
Khorgos Puli Network Technology Co., Ltd.	Associate of the Group
Blackshark H.K Ltd. (Note 11(b))	Associate of the Group
Beijing Xiaomi Insurance Co., Ltd. (Note 11(b))	Associate of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(a) Names and relationships with related parties (continued)

Notes:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

(b) Significant transactions with related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
(i) Sales of goods and services		
Associates of the Group	**1,666,141**	1,153,491
Associates of Lei Jun	**2,156**	25,376
	1,668,297	1,178,867
(ii) Purchases of goods and services		
Associates of the Group	**27,221,258**	18,634,514
Associates of Lei Jun	**517**	14,768
	27,221,775	18,649,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(c) Year end balances with related parties

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
(i) Trade receivables from related parties		
Associates of the Group	324,027	361,792
Associates of Lei Jun	—	2,816
	324,027	364,608
(ii) Trade payables to related parties		
Associates of the Group	6,061,497	4,004,778
Associates of Lei Jun	1,829	1,916
	6,063,326	4,006,694
(iii) Other receivables from related parties		
Associates of the Group	373,071	243,126
(iv) Other payables to related parties		
Associates of the Group	861,736	770,032
Controlled by a director	79,466	76,966
Associates of Lei Jun	7,476	7,652
	948,678	854,650
(v) Prepayments		
Associates of the Group	136,899	88,289
(vi) Advance from customers		
Associates of the Group	28,308	35,862
Associates of the Lei Jun	14	14
	28,322	35,876

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(d) Loans to related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loans to associates:		
At the beginning of the year	7,979	62,143
Loans advanced	34,934	50,000
Loans repaid	(6,000)	(103,116)
Interest charged	962	1,921
Interest received	(70)	(2,210)
Currency translation differences	(3)	(759)
At the end of the year	37,802	7,979

(e) Loans from related parties

	Year ended December 31, 2019 RMB'000	2018 RMB'000
Loans from associates:		
At the beginning of the year	—	51,336
Loans repaid	—	(50,958)
Interest charged	—	146
Interest paid	—	(855)
Currency translation differences	—	331
At the end of the year	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Related party transactions (continued)

(f) Key management compensation

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Salaries	11,676	15,124
Discretionary bonuses	7,600	1,200
Share-based compensation	428,811	10,464,196
Employer's contribution to pension schedule	1,159	989
	449,246	10,481,509

40 Events after the reporting period

An outbreak of Coronavirus Disease 2019 ("**COVID-19**") has been emerged since January 2020, and has been declared as a Public Health Emergency of International Concern on January 30, 2020 and subsequently characterized as a pandemic on March 11, 2020 by the World Health Organization. The Group has been paying close attention to the development of the COVID-19 outbreak and has conducted an assessment of its impact on the financial position and operating results of the Group.

As of the date on which this set of financial statements were authorized for issue, the Group has identified some factors which might have impact on the Group's financial performance, including offline hardware sales, supply chains, and overseas demand, etc. The Group will closely monitor the latest development of the COVID-19 outbreak so as to adopt positive counter-measures to overcome any challenges arising and to assess the related impact to the Group on a continuous basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31, 2019 RMB'000	2018 RMB'000
Assets		
Non-current assets		
Property and equipment	35	35
Investment in subsidiaries	17,854,701	13,434,702
Other assets	78	77
	17,854,814	13,434,814
Current assets		
Prepayments and other receivables	21,319,432	30,217,183
Cash and cash equivalents	58,359	5,707
	21,377,791	30,222,890
Total assets	39,232,605	43,657,704
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	388	377
Reserves (Note 41(b))	39,223,583	39,159,983
Total equity	39,223,971	39,160,360
Liabilities		
Current liabilities		
Other payables and accruals	8,634	4,497,344
	8,634	4,497,344
Total liabilities	8,634	4,497,344
Total equity and liabilities	39,232,605	43,657,704

The balance sheet of the Company was approved by the Board of Directors on March 31, 2020 and was signed on its behalf:

Lei Jun　　　　Lin Bin

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019	—	43,851,282	5,436,038	985,481	25,950	(11,148,160)	9,392	39,159,983
Purchase of own shares	(2,932,111)	—	—	—	—	—	—	(2,932,111)
Cancellation of shares	1,879,289	(1,882,527)	—	—	—	—	—	(3,238)
Release of ordinary shares from Share Scheme Trust	—	167,447	(139,015)	—	—	—	—	28,432
Employees share-based compensation scheme:								
– value of employee services (Note 28)	—	—	2,127,967	—	—	—	—	2,127,967
– exercise of share options and restricted stock units (Note 28)	—	1,442,634	(1,184,767)	—	—	—	—	257,867
Currency translation differences (Note (a))	—	—	—	508,584	—	—	—	508,584
Profit for the year	—	—	—	—	—	76,099	—	76,099
At December 31, 2019	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	9,392	39,223,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

41 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company (continued)

	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
At January 1, 2018	742,760	3,816,153	(3,495,173)	25,950	(150,421,487)	9,392	(149,322,405)
Issuance of ordinary shares	9,827,146	–	–	–	–	–	9,827,146
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	23,248,593	–	–	–	–	–	23,248,593
Release of ordinary shares from Share Scheme Trust	933,592	(841,640)	–	–	–	–	91,952
Conversion of convertible redeemable preferred shares to ordinary shares	151,100,334	–	–	–	–	–	151,100,334
Employees share-based compensation scheme:							
– value of employee services (Note 28)	–	2,461,525	–	–	–	–	2,461,525
Acquisition of additional equity interests in non-wholly owned subsidiaries	230,899	–	–	–	–	–	230,899
Currency translation differences (Note (a))	–	–	(1,098,818)	–	–	–	(1,098,818)
Share premium set off the accumulated losses and other reserves	(142,232,042)	–	5,579,472	–	136,652,570	–	–
Profit for the year	–	–	–	–	2,620,757	–	2,620,757
At December 31, 2018	43,851,282	5,436,038	985,481	25,950	(11,148,160)	9,392	39,159,983

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of Xiaomi Corporation
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Xiaomi Corporation (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 219 to 361, which comprise:

- the consolidated balance sheet as of December 31, 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

INDEPENDENT AUDITOR'S REPORT

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to the classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss".

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss" Refer to Note 3.3 and Note 19 to the consolidated financial statements. During the year ended December 31, 2020, the Group recognized fair value changes on the following investments in profits or losses: (i) equity investments in unlisted companies other than those accounted for using equity method, and (ii) convertible redeemable preferred shares or ordinary shares with preferential rights investments in unlisted companies (collectively the "**Unlisted Securities**"), amounting to RMB3,349,669,000 and RMB21,245,862,000, respectively. The total amount of Unlisted Securities as of December 31, 2020 was RMB24,595,531,000, accounting for 10% of the Group's total assets.	We understood and evaluated the key controls over the capturing, measurement and recording of the Unlisted Securities investments and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors of related accounting estimate. For the classification and initial recognition of the Unlisted Securities, we have performed the following procedures: (1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees on a sample basis to understand the commercial rationale for these Unlisted Securities investments; (2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and initial recognition of the Unlisted Securities require management to analyze certain complex contract terms and make judgments to determine the classifications of the above financial assets, based on the Group's business models of managing these financial assets and the contractual terms of the cash flows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents. Management engaged an external valuer to assist to determine the fair value of these Unlisted Securities. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs. We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and fair value determination of the Unlisted Securities which are subject to high degree of estimation uncertainty and high level of inherent risk factors.	For the assessment of fair value determination of the Unlisted Securities, we involved our internal valuation specialists to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities; (3) We assessed the reasonableness of assumptions and inputs used in fair value determination of Unlisted Securities, including expected volatility, risk-free interest rate, discounted for lack of marketability; (4) We recalculated the fair values of Unlisted Securities on a sample basis; and (5) We tested the accuracy of the fair value changes on investments measured at fair value through profit or loss for the year on a sample basis. We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidences.

INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 24, 2021

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2020

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Revenue	6	**245,865,633**	205,838,682
Cost of sales	8	**(209,113,771)**	(177,284,649)
Gross profit		**36,751,862**	28,554,033
Selling and marketing expenses	8	**(14,539,400)**	(10,378,073)
Administrative expenses	8	**(3,746,449)**	(3,103,901)
Research and development expenses	8	**(9,256,139)**	(7,492,554)
Fair value changes on investments measured at fair value through profit or loss	19(v)	**13,173,479**	3,813,012
Share of gains/(losses) of investments accounted for using the equity method	11(b)	**1,380,904**	(671,822)
Other income	7	**642,930**	1,265,921
Other losses, net		**(372,458)**	(226,399)
Operating profit		**24,034,729**	11,760,217
Finance income	10	**963,555**	930,889
Finance costs	10	**(3,364,852)**	(528,460)
Profit before income tax		**21,633,432**	12,162,646
Income tax expenses	12	**(1,320,722)**	(2,059,696)
Profit for the year		**20,312,710**	10,102,950
Attributable to:			
— Owners of the Company		**20,355,504**	10,044,164
— Non-controlling interests		**(42,794)**	58,786
		20,312,710	10,102,950
Earnings per share (expressed in RMB per share):	13		
Basic		**0.849**	0.423
Diluted		**0.825**	0.410

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Profit for the year		**20,312,710**	10,102,950
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive (loss)/income of investments accounted for using the equity method	11(b)	(14,250)	9,279
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		(4,773)	—
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		(3,385)	—
Currency translation differences		(307,757)	(77,430)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		(2,032,656)	508,584
Other comprehensive (loss)/income for the year, net of tax		(2,362,821)	440,433
Total comprehensive income for the year		**17,949,889**	10,543,383
Attributable to:			
— Owners of the Company		**17,986,452**	10,472,914
— Non-controlling interests		(36,563)	70,469
		17,949,889	10,543,383

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2020

(Expressed in RMB)

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
Assets			
Non-current assets			
Property and equipment	14	6,305,657	6,992,331
Intangible assets	15	4,265,619	1,672,002
Investments accounted for using the equity method	11(b)	12,781,995	9,300,507
Long-term investments measured at fair value through profit or loss	19	35,215,319	20,679,363
Deferred income tax assets	34	2,011,072	1,283,415
Long-term bank deposits	24(c)	9,608,677	590,157
Long-term investments measured at amortized cost	19	232,798	—
Other non-current assets	17	6,975,851	5,572,346
		77,396,988	46,090,121
Current assets			
Inventories	23	41,670,719	32,585,438
Trade receivables	21	10,161,019	6,948,567
Loan receivables	20	8,919,088	12,723,503
Prepayments and other receivables	22	16,181,520	19,837,018
Bills receivables measured at fair value through other comprehensive income		200,000	—
Short-term investments measured at fair value through other comprehensive income	19	797,456	—
Short-term investments measured at fair value through profit or loss	19	22,376,387	16,463,390
Short-term bank deposits	24(c)	17,598,946	21,523,043
Restricted cash	24(b)	3,625,257	1,538,266
Cash and cash equivalents	24(a)	54,752,443	25,919,861
		176,282,835	137,539,086
Total assets		253,679,823	183,629,207
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	409	388
Reserves		123,691,287	81,330,186
		123,691,696	81,330,574
Non-controlling interests		321,819	327,102
Total equity		124,013,515	81,657,676

CONSOLIDATED BALANCE SHEET

As of December 31, 2020

(Expressed in RMB)

	Note	As of December 31, 2020 RMB'000	2019 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	33	10,634,806	4,786,856
Deferred income tax liabilities	34	300,556	579,902
Warranty provision		802,590	667,857
Other non-current liabilities	29	10,001,428	3,756,211
		21,739,380	9,790,826
Current liabilities			
Trade payables	30	72,198,856	59,527,940
Other payables and accruals	31	13,619,655	9,101,343
Advance from customers	32	11,999,086	8,237,119
Borrowings	33	6,961,937	12,836,555
Income tax liabilities		674,298	479,350
Warranty provision		2,473,096	1,998,398
		107,926,928	92,180,705
Total liabilities		129,666,308	101,971,531
Total equity and liabilities		253,679,823	183,629,207

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 219 to 361 were approved by the Board of Directors on March 24, 2021 and were signed on its behalf:

Lei Jun **Lin Bin**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Attributable to owners of the Company							
		Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 26) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2020		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676
Comprehensive income									
Profit for the year		–	–	–	–	20,355,504	20,355,504	(42,794)	20,312,710
Other comprehensive loss									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive loss of investments accounted for using the equity method	11(b)	–	–	–	(14,250)	–	(14,250)	–	(14,250)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		–	–	–	(4,773)	–	(4,773)	–	(4,773)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(3,385)	–	(3,385)	–	(3,385)
Currency translation differences	26	–	–	–	(313,988)	–	(313,988)	6,231	(307,757)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	26	–	–	–	(2,032,656)	–	(2,032,656)	–	(2,032,656)
Total comprehensive income		–	–	–	(2,369,052)	20,355,504	17,986,452	(36,563)	17,949,889
Transactions with owners in their capacity as owners									
Purchase of own shares	25	–	(454,872)	–	–	–	(454,872)	–	(454,872)
Cancellation of shares	25	–	1,345,663	(1,349,709)	–	–	(4,046)	–	(4,046)
Release of ordinary shares from Share Scheme Trusts	25	–	125,807	687,235	(783,805)	–	29,237	–	29,237
Share of other reserves of investments accounted for using the equity method	11(b)	–	–	–	207,140	–	207,140	–	207,140
Employees share-based compensation scheme:									
– value of employee services	28	–	–	–	1,978,166	–	1,978,166	280	1,978,446
– exercise of share options and restricted stock units	28	4	–	1,511,225	(1,179,339)	–	331,890	–	331,890
Capital injection from non-controlling interests		–	–	–	–	–	–	31,000	31,000
Share consideration for acquisition of an associate		1	–	320,384	320,384	–	640,769	–	640,769
Issuance of convertible bonds (equity component)	33(e)	–	–	–	1,764,799	–	1,764,799	–	1,764,799
Issuance of shares upon placement	25	16	–	19,907,920	–	–	19,907,936	–	19,907,936
Appropriation to statutory reserves	26	–	–	–	182,626	(182,626)	–	–	–
Appropriation to general reserves	26	–	–	–	32,945	(32,945)	–	–	–
Others		–	–	–	(26,349)	–	(26,349)	–	(26,349)
Total transactions with owners in their capacity as owners		21	1,016,598	21,077,055	2,496,567	(215,571)	24,374,670	31,280	24,405,950
Balance at December 31, 2020		409	(36,224)	64,655,891	8,158,661	50,912,959	123,691,696	321,819	124,013,515

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2020

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 26) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2019		377	–	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129
Comprehensive income									
Profit for the year		–	–	–	–	10,044,164	10,044,164	58,786	10,102,950
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	11(b)	–	–	–	9,279	–	9,279	–	9,279
Currency translation differences	26	–	–	–	(89,113)	–	(89,113)	11,683	(77,430)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	26	–	–	–	508,584	–	508,584	–	508,584
Total comprehensive income		–	–	–	428,750	10,044,164	10,472,914	70,469	10,543,383
Transactions with owners in their capacity as owners									
Purchase of own shares	25	–	(2,932,111)	–	–	–	(2,932,111)	–	(2,932,111)
Cancellation of shares	25	1	1,879,289	(1,882,527)	–	–	(3,237)	–	(3,237)
Release of ordinary shares from Share Scheme Trusts	25	1	–	167,447	(139,015)	–	28,433	–	28,433
Share of other reserves of investments accounted for using the equity method	11(b)	–	–	–	229,740	–	229,740	–	229,740
Employees share-based compensation scheme:									
– value of employee services	28	–	–	–	2,127,878	–	2,127,878	89	2,127,967
– exercise of share options and restricted stock units	28	9	–	1,442,634	(1,184,767)	–	257,876	–	257,876
Capital injection from non-controlling interests		–	–	–	–	–	–	155,496	155,496
Acquisition of additional equity interests in non-wholly owned subsidiaries		–	–	–	(173,904)	–	(173,904)	173,904	–
Appropriation to statutory reserves	26	–	–	–	295,047	(295,047)	–	–	–
Appropriation to general reserves	26	–	–	–	2	(2)	–	–	–
Total transactions with owners in their capacity as owners		11	(1,052,822)	(272,446)	1,154,981	(295,049)	(465,325)	329,489	(135,836)
Balance at December 31, 2019		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	35(a)	23,831,802	25,952,239
Income tax paid		(1,953,302)	(2,141,885)
Net cash generated from operating activities		21,878,500	23,810,354
Cash flows from investing activities			
Capital expenditures		(3,025,523)	(3,405,163)
Proceeds from disposal of property and equipment	35(b)	63,088	67,735
Placement of short-term bank deposits		(37,650,395)	(25,728,849)
Withdrawal of short-term bank deposits		41,212,622	5,525,882
Placement of long-term bank deposits		(9,018,520)	(590,157)
Purchase of short-term investments measured at fair value through profit or loss		(195,282,061)	(134,409,027)
Proceeds from maturity of short-term investments measured at fair value through profit or loss		189,410,595	124,632,553
Purchase of short-term investments measured at fair value through other comprehensive income		(1,544,640)	—
Proceeds from maturity of investments measured at fair value through other comprehensive income		742,090	—
Purchase of investments measured at amortized cost		(570,394)	—
Proceeds from maturity of investments measured at amortized cost		341,527	—
Interest income received		1,052,389	864,226
Investment income received		637,901	386,461
Purchase of long-term investments measured at fair value through profit or loss		(7,534,492)	(3,987,225)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		4,632,047	4,846,175
Purchase of investments accounted for using the equity method		(1,309,560)	(200,000)
Proceeds from disposal of investments accounted for using the equity method		6,345	80,048
Acquisition of a subsidiary, net of cash acquired		38,517	—
Dividends received		119,612	347,205
Net cash used in investing activities		(17,678,852)	(31,570,136)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2020

(Expressed in RMB)

	Note	Year ended December 31, 2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		30,582,175	17,036,724
Repayment of borrowings		(32,586,382)	(10,417,425)
Finance expenses paid		(499,711)	(218,994)
Placement of restricted cash		(531,369)	—
Withdrawal of restricted cash		807,192	75,773
Contribution from fund investors		3,398,000	—
Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary		—	(187,000)
Net proceeds from exercise of share options		254,476	186,838
Payments for shares repurchase		(454,872)	(2,932,111)
Payment of lease liabilities		(493,899)	(578,063)
Capital contribution from non-controlling interests		31,000	155,496
Issuance of convertible bonds, net of issuance costs		5,801,022	—
Issuance of shares upon placement		19,907,936	—
Net cash generated from financing activities		26,215,568	3,121,238
Net increase/(decrease) in cash and cash equivalents		30,415,216	(4,638,544)
Cash and cash equivalents at the beginning of the year	24(a)	25,919,861	30,230,147
Effects of exchange rate changes on cash and cash equivalents		(1,582,634)	328,258
Cash and cash equivalents at the end of the year	24(a)	54,752,443	25,919,861

The notes on pages 227 to 361 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "**Company**"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "**Group**") are principally engaged in development and sales of smartphones, internet of things ("**IoT**") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain subsidiaries through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("**Xiaomi Communications**", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from the respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information (continued)

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 11(a).

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by International Accounting Standards Board ("**IASB**") and disclosure requirements of the Hong Kong Companies Ordinance.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following new and amended standards, and annual improvements are mandatory for the first time for the Group's financial year beginning on January 1, 2020 and are applicable for the Group:

- Amendment to IFRS 3 on Definition of a Business
- Amendments to IAS 1 and IAS 8 on Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7 on Interest Rate Benchmark Reform and its Effects on Financial Reporting — Phase 1
- Revised Conceptual Framework for Financial Reporting

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

(b) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Business combination (continued)

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("**OCI**") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

2 Summary of significant accounting policies (continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is treated as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other losses, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.3 Associates (continued)

(b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.10).

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollar ("**US$**"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

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

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

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income.

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

(d) Disposal of foreign operation and partial disposal

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
— Electronic equipment	3 years
— Office equipment	3–5 years
— Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses, net" in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.7 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 40 years by using the straight-line method.

2.8 Intangible assets

(a) Goodwill

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

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

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

(b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(c) Trademarks, patents and domain name

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 16 years.

(d) Other intangible assets

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

(e) Research and development expenditures

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

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

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

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

- those to be measured at amortized cost.

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

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

See Note 18 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other losses, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other losses, net.

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

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

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

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.3 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

Impairment on other financial assets, mainly including loan receivables, other receivables, term bank deposits, long-term investments measured at amortized cost and short-term investments measured at fair value through other comprehensive income, is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

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

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.4 Derecognition (continued)

Asset-backed securities

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liability is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

Other financial liabilities

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

2.11 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

2 Summary of significant accounting policies (continued)

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. They are generally due for settlement within one year and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.10.3 for a description of the Group's impairment policies for trade and other receivables.

2.14 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.10.3 for a description of the Group's impairment policy for loan receivables.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 Summary of significant accounting policies (continued)

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.21 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax (continued)

(b) **Deferred income tax**

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) **Offsetting**

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.22 Employee benefits

(a) **Pension obligations**

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(b) **Employee leave entitlements**

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) **Bonus plans**

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.23 Share-based payment

(a) **Equity-settled share-based payment transactions**

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("**RSUs**") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.23 Share-based payment (continued)

(a) Equity-settled share-based payment transactions (continued)

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

2 Summary of significant accounting policies (continued)

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(a) **Warranty provision**

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

2.25 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

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

(a) **Sales of products**

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(a) Sales of products (continued)

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(b) Internet services

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

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

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

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. For online game, the Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loan services through its own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(b) Internet services (continued)

(ii) Internet value-added services (continued)

Fintech business (continued)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group acts as an agent to facilitate such loans. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.26 Interest income

Interest income on financial assets at amortized cost and financial assets at fair value through other comprehensive income calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 Earnings per share

(a) **Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) **Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 Summary of significant accounting policies (continued)

2.28 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

2.29 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.30 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

2 Summary of significant accounting policies (continued)

2.30 Leases (continued)

- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 Summary of significant accounting policies (continued)

2.30 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group has chosen not to revalue its right-of-use assets.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term (Note 17). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

3 Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB233,314,000 higher/lower (2019: RMB28,060,000 lower/higher), as a result of net foreign exchange gains (2019: net foreign exchange losses) on translation of net monetary liabilities (2019: net monetary assets) denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB11,743,000 (2019: RMB326,278,000) lower/higher, as a result of net foreign exchange losses on translation of net monetary liabilities denominated in RMB.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 33), short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost, loan receivables, long-term bank deposits, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB12,412,000 (2019: RMB29,537,000) lower/higher. This analysis does not include the effect of interest capitalized.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2020 would have been RMB273,762,000 (2019: RMB129,599,000) higher/lower.

The fair value interest rate risk arises from financial assets and liabilities carried at fixed rates is not significant for the Group.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk primarily in respect of the long-term investments and short-term investments held by the Group and classified in the balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments measured at fair value through profit and loss, short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost, loan receivables, trade receivables, other receivables, bills receivables measured at fair value through other comprehensive income and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments measured at fair value through profit and loss and bills receivables measured at fair value through other comprehensive income, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to those financial institutions.

For short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized costs, mainly including debt securities whose contractual cash flows are solely principal and interest, management makes periodic collective assessments as well as individual assessment on the recoverability based on historical settlement records and past experiences. In view of the sound rating of bond issuers, management believes that the credit risk inherent in those investments due from them is not significant.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is RMB1,605,679,000 as of December 31, 2020 (2019: RMB8,142,058,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

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

(b1) Expected credit loss model for loan receivables, as summarized below:

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(3) Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Credit loss allowance

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "step down") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;

- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2020	198,089	400,085	1,071,563	1,669,737
Transfers:				
Transfer from Stage 1 to Stage 2	(435)	21,467	—	21,032
Transfer from Stage 1 to Stage 3	(55,454)	—	483,776	428,322
Transfer from Stage 2 to Stage 3	—	(270,561)	336,764	66,203
Change in PDs/LGDs/EADs	366	1	1,334	1,701
Loan receivables derecognized during the year	(141,868)	(137,378)	(34,261)	(313,507)
New loan receivables originated	296,521	288,726	1,351,141	1,936,388
Write-offs	—	—	(1,000,792)	(1,000,792)
Loss allowance as of December 31, 2020	297,219	302,340	2,209,525	2,809,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2019	101,621	89,271	510,973	701,865
Transfers:				
Transfer from Stage 1 to Stage 2	(208)	13,785	—	13,577
Transfer from Stage 1 to Stage 3	(2,114)	—	175,902	173,788
Transfer from Stage 2 to Stage 3	—	(68,890)	146,511	77,621
Change in PDs/LGDs/EADs	17	11	35,593	35,621
Loan receivables derecognized during the year	(98,076)	(21,373)	(183,746)	(303,195)
New loan receivables originated	196,849	387,281	642,015	1,226,145
Write-offs	—	—	(255,685)	(255,685)
Loss allowance as of December 31, 2019	198,089	400,085	1,071,563	1,669,737

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

The new loan receivables originated during the year ended December 31, 2020, due to the optimized risk strategy of the Group, decreased by 22% (2019: increased by 29%). With the increase of the gross carrying amount in Stage 3, loss allowance measured on lifetime basis increased by RMB1,137,962,000 for the year ended December 31, 2020 (2019: RMB560,590,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The gross carrying amount of the loan receivables explains their significance to the changes in the credit loss allowance as discussed above:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Gross carrying amount as of January 1, 2020	12,733,684	532,975	1,126,581	14,393,240
Transfers:				
Transfer from Stage 1 to Stage 2	(26,210)	26,210	—	—
Transfer from Stage 1 to Stage 3	(516,986)	—	516,986	—
Transfer from Stage 2 to Stage 3	—	(359,596)	359,596	—
Loan receivables derecognized during the year other than write-offs	(12,193,029)	(179,471)	(38,288)	(12,410,788)
New loan receivables originated	9,003,026	358,945	1,433,549	10,795,520
Write-offs	—	—	(1,049,800)	(1,049,800)
Gross carrying amount as of December 31, 2020	9,000,485	379,063	2,348,624	11,728,172
Gross carrying amount as of January 1, 2019	10,227,478	207,640	560,392	10,995,510
Transfers:				
Transfer from Stage 1 to Stage 2	(18,538)	18,538	—	—
Transfer from Stage 1 to Stage 3	(188,121)	—	188,121	—
Transfer from Stage 2 to Stage 3	—	(154,171)	154,171	—
Loan receivables derecognized during the year other than write-offs	(10,000,977)	(53,444)	(199,724)	(10,254,145)
New loan receivables originated	12,713,842	514,412	679,306	13,907,560
Write-offs	—	—	(255,685)	(255,685)
Gross carrying amount as of December 31, 2019	12,733,684	532,975	1,126,581	14,393,240

There is no originated credit-impaired loan receivables of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write off loan receivables that are still subject to enforcement activity. The outstanding contractual amounts of loan receivables written off during the year ended December 31, 2020 was RMB1,049,800,000 (2019: RMB255,685,000). The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2020, there is no non-compliance with such loan covenants (2019: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 year and 2 years RMB'000	Between 2 years and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2020					
Borrowings	7,488,113	1,226,928	2,391,847	10,635,713	21,742,601
Trade payables	72,198,856	—	—	—	72,198,856
Other payables	9,731,586	—	—	—	9,731,586
Lease liabilities	418,984	254,025	255,581	67,290	995,880
Liabilities to fund investors	—	—	—	9,364,533	9,364,533
Off-balance sheet guarantee liabilities	1,468,521	—	—	—	1,468,521
At December 31, 2019					
Borrowings	13,410,690	3,342,065	1,430,363	928,448	19,111,566
Trade payables	59,527,940	—	—	—	59,527,940
Other payables	5,601,788	—	—	—	5,601,788
Lease liabilities	414,687	204,959	275,879	108,590	1,004,115
Liabilities to fund investors	—	—	—	3,074,210	3,074,210
Off-balance sheet guarantee liabilities	7,893,941	—	—	—	7,893,941

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and share premium) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has operating profits and a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at December 31, 2020:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	6,377,087	—	28,838,232	35,215,319
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	22,376,387	22,376,387
Short-term investments measured at fair value through other comprehensive income (Note 19)	797,456	—	—	797,456
Bills receivables measured at fair value through other comprehensive income	—	—	200,000	200,000
	7,174,543	—	51,414,619	58,589,162

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2019:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 19)	3,651,090	—	17,028,273	20,679,363
Short-term investments measured at fair value through profit or loss (Note 19)	—	—	16,463,390	16,463,390
	3,651,090	—	33,491,663	37,142,753

(a) **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) **Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets mainly include long-term investments measured at fair value through profit or loss and short-term investments measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) **Financial instruments in level 3 (continued)**

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2020 and 2019:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
At the beginning of the year	17,028,273	13,420,310
Additions	6,257,421	3,486,670
Disposals	(355,967)	(396,683)
Changes in fair value	7,655,853	2,287,879
Transfer to long-term investments accounted for using the equity method	(94,327)	(958,701)
Transfer to level 1 financial instruments	(710,852)	(967,179)
Exchange (losses)/gains	(942,169)	155,977
At the end of the year	28,838,232	17,028,273
Net unrealized gains for the year	7,491,689	1,772,043

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2020 and 2019:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	16,463,390	6,648,526
Additions	195,282,061	134,409,027
Disposals	(190,048,496)	(125,019,014)
Changes in fair value	679,432	424,851
At the end of the year	22,376,387	16,463,390
Net unrealized gains for the year	79,921	38,390

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 19), and short-term investments measured at fair value through profit or loss (Note 19). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows or market approach etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) **Financial instruments in level 3 (continued)**

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31,			As of December 31,		
	2020	2019		2020	2019	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss	28,838,232	17,028,273	Expected volatility	28%–71%	26%–59%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	10%–25%	5%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	0.1%–5%	2%–3%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	22,376,387	16,463,390	Expected rate of return	1%–7%	2%–5%	The higher the expected rate of return, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the year ended December 31, 2020 would have been approximately RMB5,759,171,000 (2019: RMB3,714,275,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2020, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering or lifting of sale restriction of the investee companies.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, long-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowings, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health, collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

(c) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments (continued)

(d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

(e) Recoverability of non-financial assets and investments accounted for using the equity method

The recoverable amount of non-financial assets and investments accounted for using the equity method is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue, operating costs and discount rates.

The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue, operating costs and the selection of appropriate discount rates. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods.

(f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

(g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

5 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smartphones
- IoT and lifestyle products
- Internet services
- Others

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of gains/(losses) of investments accounted for using the equity method, other income, other losses, net, finance income, finance costs and income tax expenses are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services including online game and fintech business. Others segment primarily comprises revenue from the Group's hardware repair services for products and sale of materials.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the years ended December 31, 2020 and 2019. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

The segment results for the years ended December 31, 2020 and 2019 are as follows:

	Year ended December 31, 2020				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	152,190,891	67,410,453	23,755,285	2,509,004	245,865,633
Cost of sales	(138,986,944)	(58,804,839)	(9,111,002)	(2,210,986)	(209,113,771)
Gross profit	13,203,947	8,605,614	14,644,283	298,018	36,751,862

	Year ended December 31, 2019				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	122,094,897	62,087,998	19,841,569	1,814,218	205,838,682
Cost of sales	(113,335,546)	(55,134,299)	(6,998,096)	(1,816,708)	(177,284,649)
Gross profit/(loss)	8,759,351	6,953,699	12,843,473	(2,490)	28,554,033

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

For the years ended December 31, 2020 and 2019, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2020		2019	
	RMB'000	%	RMB'000	%
Mainland China	123,484,251	50.2	114,608,633	55.7
Rest of the world (Note(a))	122,381,382	49.8	91,230,049	44.3
	245,865,633		205,838,682	

Note:

(a) Revenues outside mainland China are mainly from India and Europe.

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2020 and 2019 are listed as below:

	Year ended December 31,	
	2020	2019
	%	%
Customer A	10.5	12.1

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

6 Revenue

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Smartphones	152,190,891	122,094,897
IoT and lifestyle products	67,410,453	62,087,998
Internet services	23,755,285	19,841,569
Others	2,509,004	1,814,218
	245,865,633	205,838,682

7 Other income

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Government grants	304,024	400,405
Value-added tax and other tax refunds	115,443	55,282
Dividend income	81,407	347,205
Others	142,056	463,029
	642,930	1,265,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

8 Expenses by nature

	Year ended December 31,	
	2020 RMB'000	2019 RMB'000
Cost of inventories sold	185,753,174	157,935,754
Provision for impairment of inventories (Note 23)	3,688,809	3,859,675
Royalty fees	6,687,263	5,042,116
Employee benefit expenses (Note 9)	9,914,453	8,304,928
Depreciation of property and equipment, right-of-use assets and investment properties (Note 14, 16, 17)	1,042,895	895,273
Amortization of intangible assets (Note 15)	665,566	485,786
Promotion and advertising expenses	5,477,287	3,355,201
Content fees to game developers and video providers	2,418,008	1,754,622
Credit loss allowance for loan receivables	1,757,680	1,015,619
Consultancy and professional service fees	980,462	730,312
Cloud service, bandwidth and server custody fees	1,980,323	1,724,145
Warranty expenses	2,823,897	2,641,794
Auditor's remuneration	88,340	79,126

During the year ended December 31, 2020, the Group incurred expenses for the purpose of research and development of approximately RMB9,256,139,000 (2019: RMB7,492,554,000), which comprised employee benefits expenses of RMB5,341,494,000 (2019: RMB4,526,246,000). No significant development expenses had been capitalized during the year (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	6,170,601	4,699,234
Share-based compensation expenses (Note (a) and Note 28)	2,328,319	2,201,722
Contributions to pension plans	423,044	551,073
Other social security costs, housing benefits and other employee benefits	992,489	852,899
	9,914,453	8,304,928

Note:

(a) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Xiaomi Development Fund ("**Employee Fund**").

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director (Chew Shou Zi) during the years ended December 31, 2020 and 2019. All of these individuals including that one director have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2020 and 2019. The emoluments payable to the five highest paid individuals during the years ended December 31, 2020 and 2019 are as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Wages, salaries and bonuses	10,768	6,762
Share-based compensation expenses	267,190	262,073
Contributions to pension plans	60	154
Other social security costs, housing benefits and other employee benefits	168	229
	278,186	269,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals Year ended December 31,	
	2020	2019
Hong Kong dollar ("**HK$**") 31,500,001 to HK$32,000,000	**1**	—
HK$35,000,001 to HK$35,500,000	**1**	—
HK$57,500,001 to HK$58,000,000	**—**	1
HK$59,500,001 to HK$60,000,000	**1**	2
HK$60,000,001 to HK$60,500,000	**—**	1
HK$68,000,001 to HK$68,500,000	**—**	1
HK$86,500,001 to HK$87,000,000	**1**	—
HK$99,000,001 to HK$99,500,000	**1**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(b) Benefits and interests of directors

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Allowances and benefits in kind HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
CHEW, Shou Zi	—	—	—	—	—	—
Non-executive Directors						
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	500	—	—	—	—	500
WONG, Shun Tak (i)	1,000	—	—	—	—	1,000
TONG Wai Cheung Timothy (ii)	1,000	—	—	—	—	1,000

Notes:

(i) HK$500,000 was paid to Mr. Wong Shun Tak during the year ended December 31, 2020 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(ii) HK$500,000 was paid to Prof. Tong Wai Cheung Timothy during the year ended December 31, 2020 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

During the year ended December 31, 2020, 100,000,000 share options were granted to Chew Shou Zi (2019: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

9 Employee benefit expenses (continued)

(c) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2020 and 2019 or at any time during all the years presented.

(d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2020 and 2019 or at any time during all the years presented.

(e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2020 and 2019 or at any time during all the years presented.

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2020 and 2019 or at any time during all the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Finance income and costs

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**963,555**	930,889

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Finance costs:		
Interest expense from liabilities to fund investors (Note 29)	**2,892,323**	250,706
Interest expense from borrowings (Note 33) and lease liabilities (Note 16)	**497,006**	407,141
Less: amount capitalized	**(24,477)**	(129,387)
	3,364,852	528,460

Finance costs have been capitalized on qualifying assets at average interest rates of 4.94% per annum for the year ended December 31, 2020 (2019: 5.78%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2020	As of December 31, 2019	As of the date of this report	
Subsidiaries							
Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	HK$10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	US$2	100%	100%	100%	Investment holding and investment activities
Xiaomi Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar ("**SGD**")1 and US$641,879,420	100%	100%	100%	Sales of smart hardware
Xiaomi Finance Inc.	Cayman Islands, limited liability company	February 15, 2018	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Best Time International Ltd.	Hong Kong, limited liability company	December 20, 2018	US$500,000,000	100%	100%	100%	Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2020	2019	As of the date of this report	Principal activities
Subsidiaries							
Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$130,000,000	100%	100%	100%	Sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mainland China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Sales of smart hardware
Taiwan Xiaomi Communications Co., Ltd.	Taiwan, limited liability company	April 25, 2000	New Taiwan Dollar ("**NTD**") 5,000,000	100%	100%	100%	Sales of smart hardware
Chongqing Xiaomi Microcredit Co., Ltd.	Mainland China, limited liability company	June 12, 2015	US$450,000,000	100%	100%	100%	Internet finance and consumer loan services
Beijing Xiaomi Mobile Software Co., Ltd.	Mainland China, limited liability company	May 8, 2012	RMB288,000,000	100%	100%	100%	Software and hardware development and provision of software related services
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials
Guangdong Xiaomi Inc.	Mainland China, limited liability company	September 21, 2015	RMB1,000,000,000	100%	100%	100%	Provision of software and technology service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a)Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2020	2019	As of the date of this report	Principal activities
Subsidiaries Indirectly held (continued):							
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Timi Personal Computing Co., Ltd.	Mainland China, limited liability company	July 28, 2015	RMB2,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited	India, limited liability company	October 7, 2014	Indian Rupees ("INR")207,450	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	100%	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	100%	100%	100%	Operation of retail stores
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	–	100%	100%	100%	Investment activities
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	US$1	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2020	2019		
Subsidiaries Indirectly held (continued):							
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	US$1,000,001	100%	100%	100%	Investment activities
Xiaomi Home Technology Co., Ltd.	Mainland China, limited liability company	January 20, 2017	RMB80,000,000	100%	100%	100%	Operation of retail stores
Beijing Zilin Real Estate Co., Ltd.	Mainland China, limited liability company	November 29, 2018	RMB1,620,000,000	95%	95%	95%	Property management
Xiaomi Commercial Factoring (Tianjin) Co., Ltd.	Mainland China, limited liability company	March 21, 2018	US$380,000,000	100%	100%	100%	Commercial factoring business
Beijing Xiaomi Software Co., Ltd.	Mainland China, limited liability company	December 19, 2011	RMB18,859,500	100%	100%	100%	Research and development of computer software and information technology
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("**IDR**") 13,000,000,000	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Xiaomi Technology (Wuhan) Co., Ltd.	Mainland China, limited liability company	September 1, 2017	RMB210,000,000	100%	100%	100%	Software development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2020	2019	As of the date of this report	Principal activities
Subsidiaries Indirectly held (continued):							
Airstar Bank Limited	Hong Kong, limited liability company	July 13, 2018	HK$1,500,000,000	90%	90%	90%	Virtual banking
Xiaomi Information Technology Wuhan Ltd.	Mainland China, limited liability company	August 3, 2018	RMB123,770,000	100%	100%	100%	Information technology advisory services
Beijing Xiaomi Pinecone Electronics Co., Ltd.	Mainland China, limited liability company	October 16, 2014	RMB250,000,000	100%	100%	100%	Development and sales of electronic products
Chengdu Beida Asset Management Co., Ltd.	Mainland China, limited liability company	August 17, 2017	RMB20,000,000	100%	100%	100%	Asset management, project investment, investment consulting
Beijing Xiaomi Intelligent Technology Co., Ltd.	Mainland China, limited liability company	May 15, 2018	RMB40,000,000	100%	100%	100%	Technology development, technology diffusion, technology transfer, technology consulting
Shenzhen Xiaomi Information Technology Co., Ltd.	Mainland China, limited liability company	September 29, 2019	RMB501,000,000	100%	100%	100%	Sales of smart hardware and provision of advertising and promotion services
XIAOMI TECHNOLOGY ITALY S.R.L.	Italy, limited liability company	September 4, 2018	EUR4,452,500	100%	100%	100%	Sales of smart hardware
Xiaomi Technology Netherlands B.V.	Netherlands, limited liability company	October 29, 2018	EUR1,000,000	100%	100%	100%	Sales of smart hardware

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2020	As of December 31, 2019	As of the date of this report	
Controlled structured entities (Note (a)):							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Venture Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB2,476,557,552	100%	100%	100%	Investment activities
Sichuan Silver Mi Technology Co., Ltd.	Mainland China, limited liability company	October 26, 2005	RMB2,192,500,000	100%	100%	100%	Research and development of computer software and market research
Jiefu Ruitong Inc.	Mainland China, limited liability company	January 11, 2011	RMB100,000,000	100%	100%	100%	Provision of electronic payment services
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services
Tianjin Gold Mi Investment Partners (Limited Partnership)	Mainland China, limited partnership	July 16, 2014	RMB2,408,957,772	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(a)Major subsidiaries and controlled structured entities (continued)

As of December 31, 2020 and 2019, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2020	2019	As of the date of this report	Principal activities
Controlled structured entities (Note (a)) (continued):							
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB7,746,000,000	17%	18%	17%	Investment activities
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business

Notes:

(a) The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(c) The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Investments in associate accounted for using the equity method		
— Listed entities (Note (a))	7,994,282	5,499,386
— Unlisted entities	4,787,713	3,801,121
	12,781,995	9,300,507

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	9,300,507	8,639,238
Additions (Note (b))	2,158,405	1,197,944
Disposals (Note (c))	(186,529)	(93,596)
Share of gains/(losses) (Note (d))	1,380,904	(671,822)
Share of other comprehensive (losses)/income	(14,250)	9,279
Share of changes of other reserves	207,140	229,740
Dividends from associates	(38,206)	(10,276)
Impairment provision	(25,976)	—
At the end of the year	12,781,995	9,300,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

Notes:

(a) As at December 31, 2020, the fair value of the investments in associates which were listed entities was RMB27,255,565,000.

(b) On May 21, 2020, the Group entered into a share purchase agreement with shareholders of Zimi International Incorporation ("**Zimi**"), pursuant to which, the Group has agreed to acquire 26,995,672 ordinary shares of Zimi, representing an aggregate of 27.44% of the entire issued share capital of Zimi, at a total consideration of approximately RMB823,311,000. The consideration shall be satisfied by cash of approximately RMB182,543,000 and issue of the Company's shares of 54,379,044, of which 50% shares have been issued on June 16, 2020, the closing date, and the remaining would be issued in four equal installments within ten business days after each of the first four anniversaries following the closing, subject to the key performance indicators being reached.

(c) On January 14, 2020, the Group entered into an agreement with Itui International Inc.("**Itui**") to exchange all of the 93,653,572 ordinary shares of Xunlei Limited held by the Group for 35,894,849 Series D preferred shares of Itui, which was recognized as financial assets at fair value through profit or loss amounting to RMB441,347,000.This transaction was closed on April 14, 2020.

(d) On February 21, 2020, Beijing Roborock Technology Co., Ltd., an associate primarily engaging in the operation of developing and selling robotic vacuum cleaners, was successfully listed on the Science and Technology Innovation Board of Shanghai Stock Exchange ("**STAR Market**"), a dilution gain of RMB344,381,000 was recognized accordingly.

On May 8, 2020, Kingsoft Cloud Holdings Limited ("**Kingsoft Cloud**"), an associate primarily engaging in the operation of cloud services, were successfully listed on the Nasdaq Global Select Market ("**NASDAQ Market**"), a dilution gain of RMB1,039,517,000 was recognized accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation and other relevant facts and circumstances, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

Set out below are the material associates of the Group as of December 31, 2020 and 2019. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

				Quoted fair value		Carrying amount	
		% of		As of December 31,		As of December 31,	
	Place of	Ownership	Principal	2020	2019	2020	2019
Name of entity	incorporation	interest	activities	RMB'000	RMB'000	RMB'000	RMB'000
Sichuan Xin Wang Bank Co., Ltd. ("**XW Bank**")	Mainland China	29.5	Provision of internet banking service	**NA**	NA	**1,478,232**	1,269,913
iQIYI, Inc. ("**iQIYI**")	Cayman Islands	6.2	Provision of internet video streaming services	**5,570,375**	7,192,441	**3,448,582**	3,769,444

The associates of the Group have been accounted by using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b)Investments accounted for using the equity method (continued)

Set out below are the summarized financial information of material associates.

	XW Bank		iQIYI	
	As of December 31,		As of December 31,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated balance sheets				
Current assets	10,404,162	10,427,012	22,290,424	20,272,838
Non-current assets	30,156,460	33,726,206	35,469,677	34,721,946
Current liabilities	14,546,314	21,007,556	24,854,578	20,173,166
Non-current liabilities	21,003,353	18,840,873	16,280,221	17,455,010
Redeemable non-controlling interests	—	—	108,629	101,542
Non-controlling interests	—	—	79,011	42,376
Equity attributable to owners of the Company	5,010,955	4,304,789	16,437,662	17,222,690
Reconciliation to carrying amounts:				
Group's share of net assets attributable to owners of the associates	1,478,232	1,269,913	1,025,235	1,160,011
Adjustment				
— Goodwill	—	—	2,423,347	2,609,433
Carrying amount	1,478,232	1,269,913	3,448,582	3,769,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11(b) Investments accounted for using the equity method (continued)

	XW Bank		iQIYI	
	Year ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income				
Revenues	2,356,575	2,680,662	29,707,215	28,993,658
Profit/(loss) from operations	786,950	1,302,822	(6,511,180)	(9,728,508)
Profit/(loss) before tax	784,581	1,302,121	(7,454,548)	(10,695,558)
Net profit/(loss)	706,166	1,133,181	(7,477,824)	(10,747,410)
Other comprehensive income	—	—	435,962	226,772
Total comprehensive income/(loss)	706,166	1,133,181	(7,041,862)	(10,520,638)

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates at the end of the year	7,855,181	4,261,150
Aggregate amounts of the Group's share of:		
Net profit/(loss)	46,244	(271,592)
Other comprehensive loss	(42,145)	(5,996)
Total comprehensive income/(loss)	4,099	(277,588)

There are no contingent liabilities relating to the Group's interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2020 and 2019 are analyzed as follows:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Current income tax	**2,327,725**	2,228,609
Deferred income tax (Note 34)	**(1,007,003)**	(168,913)
Income tax expenses	**1,320,722**	2,059,696

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
Profit before income tax	**21,633,432**	12,162,646
Tax calculated at statutory income tax rate of 25% in mainland China (Note (a))	**5,408,358**	3,040,662
Tax effects of:		
— Effect of different tax rates in other jurisdictions (Note (b),(c),(d))	**(2,728,700)**	(617,082)
— Preferential income tax rates applicable to subsidiaries (Note (e))	**(690,128)**	(1,055,387)
— Tax losses and temporary differences for which no deferred income tax assets was recognized	**267,162**	347,222
— Expenses not deductible for income tax purposes	**445,787**	721,596
— Utilization of previously unrecognized deductible tax losses and temporary differences	**(468,998)**	(25,515)
— Recognition of previously unrecognized deductible tax losses and temporary differences	**(228,402)**	(285,756)
— Super Deduction for research and development expenses (Note (f))	**(428,683)**	(301,835)
— Income not subject to tax	**(259,776)**	(117,241)
— Reversal of deferred income tax assets	**—**	350,959
— Others	**4,102**	2,073
Income tax expenses	**1,320,722**	2,059,696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses (continued)

Notes:

(a) Enterprise income tax in mainland China ("**EIT**")

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 28), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("**BVI**") are exempt from BVI income taxes.

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax of which the tax rate was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess.

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 25% to 35% on the assessable profits for the years presented, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries in mainland China are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Xiaomi Mobile enjoys the preferential EIT rate of 10% for the years ended December 31, 2020 and 2019.

Xiaomi Digital Technology Co.,Ltd. was qualified as a "High and New Technology Enterprise"in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses (continued)

Notes (continued):

(f) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The State Taxation Administration of The People's Republic of China announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year.

(g) Withholding tax in mainland China ("**WHT**")

According to the New Corporate Income Tax Law ("New EIT Law"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings of these subsidiaries was accrued as of the end of each reporting period.

13 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2020 and 2019 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	**20,355,504**	10,044,164
Weighted average number of ordinary shares in issue (thousand shares)	**23,986,829**	23,746,463
Basic earnings per share (expressed in RMB per share)	**0.849**	0.423

13 Earnings per share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the inclusion of potential ordinary shares from the convertible bonds would be anti-dilutive, it is not included in the calculation of diluted earnings per share.

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	20,355,504	10,044,164
Weighted average number of ordinary shares in issue (thousand shares)	23,986,829	23,746,463
Adjustments for RSUs and share options granted to employees (thousand shares)	664,800	762,301
Adjustments for share consideration for acquisition of an associate (thousand shares)	16,651	—
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,668,280	24,508,764
Diluted earnings per share (expressed in RMB per share)	0.825	0.410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2020						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	—	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Year ended December 31, 2020						
Opening net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Currency translation differences	(4,984)	(512)	—	(3,879)	(3)	(9,378)
Additions	542,717	2,455	—	305,581	1,263,051	2,113,804
Transfer from construction in progress to buildings and others	—	—	1,365,964	—	(3,554,370)	(2,188,406)
Disposals	(13,294)	(51)	—	(43,268)	(28,489)	(85,102)
Depreciation charge (Note 8)	(223,834)	(2,190)	(68,448)	(223,120)	—	(517,592)
Closing net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
At December 31, 2020						
Cost	1,402,988	24,358	3,633,346	1,033,174	1,675,615	7,769,481
Accumulated depreciation	(643,957)	(17,283)	(86,084)	(716,500)	—	(1,463,824)
Net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment (continued)

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2019						
Cost	642,723	33,932	—	564,076	4,543,071	5,783,802
Accumulated depreciation	(379,599)	(15,627)	—	(320,523)	—	(715,749)
Net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Year ended December 31, 2019						
Opening net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Currency translation differences	288	50	—	(2,950)	1	(2,611)
Additions	372,180	2,274	—	247,015	2,511,206	3,132,675
Transfer from construction in progress to buildings	—	—	2,974,650	—	(2,974,650)	—
Disposals	(50,990)	(10,836)	—	(28,579)	(31,690)	(122,095)
Transfer to investment properties (Note 17)	—	—	(707,268)	—	(52,512)	(759,780)
Depreciation charge (Note 8)	(126,176)	(2,420)	(17,636)	(177,679)	—	(323,911)
Closing net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
At December 31, 2019						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	—	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331

Construction in progress as of December 31, 2020 and 2019 mainly comprises new office buildings being constructed in mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Property and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Administrative expenses	120,863	109,466
Selling and marketing expenses	165,270	124,624
Research and development expenses	201,426	75,223
Cost of sales	30,033	14,598
	517,592	323,911

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	—	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002
Year ended December 31, 2020					
Opening net book amount	248,167	699,401	550,810	173,624	1,672,002
Currency translation differences	—	26	(9,435)	(4,150)	(13,559)
Additions	5,084	3,123,202	92,632	89,409	3,310,327
Disposals	—	(711)	(1,548)	(35,326)	(37,585)
Amortization charge (Note 8)	—	(504,910)	(97,454)	(63,202)	(665,566)
Closing net book amount	253,251	3,317,008	535,005	160,355	4,265,619
At December 31, 2020					
Cost	253,251	4,549,537	1,150,844	389,491	6,343,123
Accumulated amortization	—	(1,232,529)	(615,839)	(229,136)	(2,077,504)
Net book amount	253,251	3,317,008	535,005	160,355	4,265,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets (continued)

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019					
Cost	282,090	1,408,219	1,084,466	224,578	2,999,353
Accumulated amortization	—	(395,806)	(416,547)	(125,808)	(938,161)
Net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Year ended December 31, 2019					
Opening net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Currency translation differences	—	(29)	(1,200)	402	(827)
Additions	—	18,820	6,461	116,231	141,512
Disposals	(33,923)	—	(9,889)	(277)	(44,089)
Amortization charge (Note 8)	—	(331,803)	(112,481)	(41,502)	(485,786)
Closing net book amount	248,167	699,401	550,810	173,624	1,672,002
At December 31, 2019					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	—	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002

Note:

(a) For the purpose of impairment tests of goodwill, goodwill is allocated to groups of cash-generating units. Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Intangible assets (continued)

Note (continued):

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2020 and 2019 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations by using the discounted cash flow method. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2%. Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2020 and 2019.

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Administrative expenses	35,896	33,968
Selling and marketing expenses	2,078	1,080
Research and development expenses	627,592	450,738
	665,566	485,786

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2020 and 2019, no goodwill or other identifiable intangible assets have been impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Leases

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
(i) The consolidated balance sheet includes the following amounts relating to leases:		
Right-of-use assets (Note(a))		
Land use rights	**4,490,143**	2,859,297
Properties	**865,533**	915,581
Other assets	**9,948**	58,222
	5,365,624	3,833,100
Lease liabilities (Note(b))		
Current	**(363,397)**	(399,444)
Non-current	**(516,482)**	(560,804)
	(879,879)	(960,248)

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.

(b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

16 Leases (continued)

	Year ended December 31, 2020 RMB'000	2019 RMB'000
(ii) The consolidated income statement includes the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**496,616**	571,336
Interest expense (included in finance costs)	**42,335**	45,881
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	**845,298**	563,400
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	**116,951**	—
	1,501,200	1,180,617

Besides land use rights, the Group leases offices, warehouses, retail stores and servers.

The total cash outflow in financing activities for leases during the year ended December 31, 2020 was RMB493,899,000 (2019: RMB578,063,000), including principal elements of lease payments of approximately RMB451,564,000 (2019: RMB532,182,000) and related interest paid of approximately RMB42,335,000 (2019: RMB45,881,000), respectively.

17 Other non-current assets

	As of December 31, 2020 RMB'000	2019 RMB'000
Right-of-use assets (Note 16)	**5,365,624**	3,833,100
Investment properties (Note (a))	**1,213,247**	1,250,932
Others	**396,980**	488,314
	6,975,851	5,572,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note:

(a) Investment properties

	Buildings and facilities RMB'000	Land use right RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2020	711,432	504,895	79,313	1,295,640
Transfer to property and equipment	—	—	(3,556)	(3,556)
Transfer to right-of-use assets	—	(5,442)	—	(5,442)
Transfer from investment property in constructions to buildings and facilities	75,757	—	(75,757)	—
At December 31, 2020	787,189	499,453	—	1,286,642
ACCUMULATED DEPRECIATION				
At January 1, 2020	(4,190)	(40,518)	—	(44,708)
Charge for the year (Note 8)	(17,980)	(10,707)	—	(28,687)
At December 31, 2020	(22,170)	(51,225)	—	(73,395)
NET BOOK VALUE				
At December 31, 2020	765,019	448,228	—	1,213,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

	Buildings and facilities RMB'000	Land use right RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2019	—	—	—	—
Transfer from property and equipment	711,432	—	52,512	763,944
Transfer from right-of-use assets	—	504,895	—	504,895
Additions	—	—	26,801	26,801
At December 31, 2019	711,432	504,895	79,313	1,295,640
ACCUMULATED DEPRECIATION				
At January 1, 2019	—	—	—	—
Charge for the year (Note 8)	(26)	—	—	(26)
Transfer from property and equipment	(4,164)	—	—	(4,164)
Transfer from right-of-use assets	—	(40,518)	—	(40,518)
At December 31, 2019	(4,190)	(40,518)	—	(44,708)
NET BOOK VALUE				
At December 31, 2019	707,242	464,377	79,313	1,250,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2020 are as follows:

	As of December 31,			
	2020		2019	
	Carrying amount RMB'000	Fair value (level 3) RMB'000	Carrying amount RMB'000	Fair value (level 3) RMB'000
Investment property units				
Located in Haidian, Beijing	1,120,141	1,554,140	1,148,225	1,557,120
Located in Yizhuang, Beijing	83,254	115,600	—	—

The Group's investment properties were valued at December 31, 2020 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalisation of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31, 2020. The key inputs were term yield and reversionary yield which ranged from 3% to 6% and from 3% to 7%, respectively (2019: from 3% to 5% and from 3% to 6%, respectively).

The above investment properties are leased to tenants under operating leases with rentals payable semiannually. Lease payments for the contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(ii) Property rental income earned during the year ended December 31, 2020 was approximately RMB94,701,000 (2019: RMB8,746,000). The investment property unit located in Haidian, Beijing has committed tenants for the next 5 years. The investment property unit located in Yizhuang, Beijing has committed tenants for the next 13 years. As of December 31, 2020, as a lessor, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
No later than 1 year	94,701	94,722
Later than 1 year and no later than 13 years	475,285	570,070
	569,986	664,792

(iii) Depreciation charges of approximately RMB28,687,000 for the year ended December 31, 2020 have been charged in profit or loss (2019: RMB26,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Financial instruments by category

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets measured at fair value:		
— Long-term investments measured at fair value through profit or loss (Note 19)	35,215,319	20,679,363
— Short-term investments measured at fair value through profit or loss (Note 19)	22,376,387	16,463,390
— Short-term investments measured at fair value through other comprehensive income (Note 19)	797,456	—
— Bills receivables measured at fair value through other comprehensive income	200,000	—
Financial assets measured at amortized costs:		
— Trade receivables (Note 21)	10,161,019	6,948,567
— Loan receivables (Note 20)	8,919,088	12,723,503
— Other receivables	9,099,090	12,246,498
— Long-term investments measured at amortized cost (Note 19)	232,798	—
— Long-term bank deposits (Note 24(c))	9,608,677	590,157
— Short-term bank deposits (Note 24(c))	17,598,946	21,523,043
— Restricted cash (Note 24(b))	3,625,257	1,538,266
— Cash and cash equivalents (Note 24(a))	54,752,443	25,919,861
	172,586,480	118,632,648
Liabilities as per balance sheet		
Financial liabilities measured at amortized cost:		
— Trade payables (Note 30)	72,198,856	59,527,940
— Other payables	9,826,091	6,080,191
— Borrowings (Note 33)	17,596,743	17,623,411
— Liabilities to fund investors (Note 29)	9,364,533	3,074,210
— Lease liabilities (Note 16)	879,879	960,248
	109,866,102	87,266,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Investments

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Fair value through other comprehensive income (i)	797,456	—
— Fair value through profit or loss (ii)	22,376,387	16,463,390
	23,173,843	16,463,390
Non-current assets		
Long-term investments measured at amortized cost (i)	232,798	—
Long-term investments measured at fair value through profit or loss		
— Equity investments (iii)	13,969,457	7,272,454
— Preferred shares investments (iv)	21,245,862	13,406,909
	35,448,117	20,679,363

(i) Investments measured at fair value through other comprehensive income and amortized cost

Investments measured at fair value through other comprehensive income and amortized cost are mainly debt securities, denominated in HKD and USD, where the contractual cash flows are solely principal and interest. The securities are mainly issued by banks and the fair value of such debt securities was determined based on quoted price on interbank bond market. None of these investments are past due.

Debt securities that are only held for collection of contractual cash flows are measured at amortized cost. Debt securities that are held for both collection of contractual cash flows and for selling, are measured at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Investments (continued)

(ii) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB and USD, with expected rates of return ranging from 0.65% to 7.20% per annum for the year ended December 31, 2020 (2019: 1.76% to 4.60%). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy (refer to Note 3.3 for details).

(iii) Equity investments

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Listed	10,619,788	4,778,263
Unlisted	3,349,669	2,494,191
	13,969,457	7,272,454

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of December 31, 2020, the Group has not elected to recognize the fair value gains or losses on these equity investments in OCI.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

19 Investments (continued)

(iv) Preferred shares investments

During the year ended December 31, 2020, the Group made aggregate preferred shares investments of RMB5,472,801,000 (2019: RMB2,675,086,000). These investees are principally engaged in sales of goods and provision of internet services.

The preferred shares investments in these investees are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. For the major assumptions used in the valuation for investment in private companies, please refer to Note 3.3.

(v) Amounts recognized in profit or loss of investments measured at fair value through profit or loss

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Fair value changes on equity investments	**8,425,388**	2,322,349
Fair value changes on preferred shares investments	**4,068,659**	1,452,273
Fair value changes on short-term investments measured at fair value through profit or loss	**679,432**	38,390
	13,173,479	3,813,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Loan receivables

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Unsecured loan	11,350,989	14,393,240
Secured loan	377,183	—
Less: credit loss allowance	(2,809,084)	(1,669,737)
	8,919,088	12,723,503

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

21 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Third parties	10,123,256	6,740,321
Related parties	238,523	324,027
	10,361,779	7,064,348
Less: credit loss allowance	(200,760)	(115,781)
	10,161,019	6,948,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

21 Trade receivables (continued)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31, 2020 RMB'000	2019 RMB'000
RMB	6,139,705	3,757,863
INR	1,878,880	1,758,770
US$	1,660,117	1,239,122
Others	482,317	192,812
	10,161,019	6,948,567

Movements on the Group's credit loss allowance of trade receivables are as follows:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
At the beginning of the year	(115,781)	(68,597)
Credit loss allowance recognized, net	(101,264)	(79,712)
Receivables written off during the year as uncollectable	16,285	32,528
At the end of the year	(200,760)	(115,781)

(a) The Group generally allows a credit period within 180 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of December 31, 2020 RMB'000	2019 RMB'000
Trade receivables		
Up to 3 months	9,400,187	6,076,873
3 to 6 months	534,660	550,929
6 months to 1 year	234,844	308,197
1 to 2 years	110,291	98,643
Over 2 years	81, 797	29,706
	10,361,779	7,064,348

21 Trade receivables (continued)

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's expected loss rates are mainly determined based on the corresponding historical credit loss rates which are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the expected changes in macroeconomic factors, such as Consumer Price Index ("**CPI**"), Gross Domestic Product ("**GDP**") and Business Climate Index ("**BCI**"), and accordingly adjusts the historical loss rates based on expected changes in all factors identified. The loss allowance provisions as of December 31, 2019 and 2020 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2020:					
Expected loss rate	0.90%	2.99%	18.36%	57.17%	
Gross carrying amount (in thousand)	9,532,268	616,190	65,526	147,795	10,361,779
Loss provision (in thousand)	85,810	18,421	12,031	84,498	200,760
December 31, 2019:					
Expected loss rate	0.03%	1.29%	9.55%	50.14%	
Gross carrying amount (in thousand)	5,822,380	856,086	222,699	163,183	7,064,348
Loss provision (in thousand)	1,627	11,066	21,269	81,819	115,781

As of December 31, 2020 and 2019, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Prepayments and other receivables

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	7,363,158	9,292,072
Recoverable value-added tax and other taxes	5,649,195	6,782,745
Prepayments to suppliers	996,788	394,090
Deposits to suppliers	343,141	375,868
Receivables from market development fund	304,787	895,773
Prepaid fees for patent expenses and other prepaid expenses	436,447	413,685
Receivables from employees related to Employee Fund (Note (a))	100,750	103,900
Interest receivables	444,441	254,912
Loans to related parties (Note (b))	11,197	37,802
Receivables related to share options and RSUs granted to employees	300,772	862,545
Others	230,844	423,626
	16,181,520	19,837,018

Notes:

(a) Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 28.

(b) Loans to related parties were unsecured, repayable on demand and carried interest rate at ceiling of 8% per annum (2019: 8%).

As of December 31, 2020 and 2019, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, receivables from market development fund, receivables from employees related to Employee Fund, interest receivables, loans to related parties, receivables related to share options and RSUs granted to employees and others which were considered to be of low credit risk, and thus credit loss allowance recognized during the year ended December 31, 2020 and 2019 was limited to 12 months expected losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

23 Inventories

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Raw materials	15,684,698	9,347,930
Finished goods	17,909,963	18,030,136
Work in progress	4,135,024	2,422,504
Spare parts	1,967,593	1,733,042
Others	3,199,153	1,925,785
	42,896,431	33,459,397
Less: provision for impairment (Note (a))	(1,225,712)	(873,959)
	41,670,719	32,585,438

Note:

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB3,688,809,000 for the year ended December 31, 2020 (2019: RMB3,859,675,000).

Provision for impairment movements for the years ended December 31, 2020 and 2019 are as below:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	(873,959)	(1,852,051)
Provision for impairment	(3,688,809)	(3,859,675)
Transfer to cost of sales upon sold	3,337,056	4,837,767
At the end of the year	(1,225,712)	(873,959)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31, 2020 RMB'000	2019 RMB'000
Cash at bank and in hand	33,633,408	13,355,455
Short-term bank deposits with initial terms within three months	21,119,035	12,564,406
	54,752,443	25,919,861

Cash and cash equivalents are denominated in the following currencies:

	As of December 31, 2020 RMB'000	2019 RMB'000
US$	36,251,899	10,322,132
RMB	12,934,190	9,217,142
INR	4,023,008	3,500,056
Others	1,543,346	2,880,531
	54,752,443	25,919,861

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 1.79% per annum for the year ended December 31, 2020 (2019: 2.76%).

(b) Restricted cash

As of December 31, 2020, restricted cash mainly represented RMB2,155,606,000 held at People's Bank of China to meet the requirements of payment institutions and RMB500,000,000 held at China Citic Bank as guarantee for bank acceptance bills.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Cash and bank balances (continued)

(c) Term bank deposits

An analysis of the Group's term bank deposits as of December 31, 2020 and 2019 are listed as below:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Short-term bank deposits denominated in:		
RMB	4,561,000	—
INR	87	392,823
US$	13,037,859	20,597,231
HK$	—	532,989
	17,598,946	21,523,043
Long-term bank deposits denominated in:		
RMB	9,607,071	590,000
INR	1,606	157
	9,608,677	590,157

Short-term bank deposits are bank deposits with original maturities over three months, under twelve months and redeemable on maturity. Long-term bank deposits are bank deposits with original maturities over twelve months and redeemable on maturity.

The effective interest rate of the short-term bank deposits and long-term bank deposits of the Group ranges from 0.7% to 7.45% and from 3.14% to 7.40% per annum for the year ended December 31, 2020, respectively (2019: from 2.38% to 7.30%, and from 3.80% to 7.45%, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares

(a) Share capital

Authorized:

As of December 31, 2020 and 2019, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US$0.0000025 per share.

Issued:

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2019		23,626,423	58	377	43,851,282
Exercise of share options and RSUs		690,361	1	9	1,442,634
Shares repurchased and cancelled		(227,956)	—	1	(1,882,527)
Issuance of ordinary shares to Share Scheme Trusts	(a)	18,567	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	1	167,447
As of December 31, 2019		24,107,395	59	388	43,578,836
Exercise of share options and RSUs		184,201	—	4	1,511,225
Shares repurchased and cancelled		(158,727)	—	—	(1,349,709)
Issuance of ordinary shares to Share Scheme Trusts	(a)	27,145	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	—	687,235
Share issued for acquisition of an associate		27,294	—	1	320,384
Issuance of shares upon placement	(b)	1,000,000	3	16	19,907,920
As of December 31, 2020		25,187,308	62	409	64,655,891

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Share capital and treasury shares (continued)

(a) Share capital (continued)

Notes:

(a) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "Share Scheme Trusts").

(b) On December 9, 2020, the Company allotted and issued 1,000,000,000 Class B ordinary shares to independent third parties, at the price of HK$23.70 for each placing share, and raised gross proceeds of approximately HK$23,700,000,000 (equivalent to RMB19,946,103,000). The respective share capital amount was approximately RMB16,000 and share premium arising from the issuance was approximately RMB19,907,920,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB38,167,000 were treated as a deduction against the share premium arising from the issuance.

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2019	—	—
Shares repurchased	358,196	2,932,111
Shares cancelled	(227,956)	(1,879,289)
As of December 31, 2019	130,240	1,052,822
As of January 1, 2020	**130,240**	**1,052,822**
Shares repurchased	**48,410**	**454,872**
Shares cancelled	**(158,727)**	**(1,345,663)**
Release of ordinary shares from Share Scheme Trusts	**(15,634)**	**(125,807)**
As of December 31, 2020	**4,289**	**36,224**

During the year ended December 31, 2020, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
April 2020	48,410	10.52	10.12	499,541,868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Other reserves

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	6,137,329	462,913	1,157,727	2	(77)	–	273,252	8,031,146
Appropriation to statutory reserves (Note (a))	–	–	182,626	–	–	–	–	182,626
Appropriation to general reserves	–	–	–	32,945	–	–	–	32,945
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 28)	1,978,166	–	–	–	–	–	–	1,978,166
– exercise of share options and restricted stock units	(1,179,339)	–	–	–	–	–	–	(1,179,339)
Share of other comprehensive loss of investments accounted for using the equity method (Note 11(b))	–	–	–	–	–	–	(14,250)	(14,250)
Share of other reserves of investments accounted for using the equity method (Note 11(b))	–	–	–	–	207,140	–	–	207,140
Currency translation differences (Note (b))	–	(2,346,644)	–	–	–	–	–	(2,346,644)
Release of ordinary shares from Share Scheme Trust (Note 25(a)(a))	(783,805)	–	–	–	–	–	–	(783,805)
Issuance of convertible bonds (equity component)(Note 33(e))	–	–	–	–	–	1,764,799	–	1,764,799
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(3,385)	(3,385)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	–	–	–	–	(4,773)	–	–	(4,773)
Share consideration for acquisition of an associate (Note 11(b))	–	–	–	–	320,384	–	–	320,384
Others	–	–	–	–	–	–	(26,349)	(26,349)
At December 31, 2020	6,152,351	(1,883,731)	1,340,353	32,947	522,674	1,764,799	229,268	8,158,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Other reserves (continued)

	Share-based compensation reserve	Currency translation differences	Statutory surplus reserve	General reserve	Capital reserve	Conversion option	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2019	5,333,233	43,442	862,680	–	(55,913)	–	263,973	6,447,415
Appropriation to statutory reserves (Note (a))	–	–	295,047	–	–	–	–	295,047
Appropriation to general reserves	–	–	–	2	–	–	–	2
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 28)	2,127,878	–	–	–	–	–	–	2,127,878
– exercise of share options and restricted stock units	(1,184,767)	–	–	–	–	–	–	(1,184,767)
Share of other comprehensive income of investments accounted for using the equity method (Note 11(b))	–	–	–	–	–	–	9,279	9,279
Share of other reserves of investments accounted for using the equity method (Note 11(b))	–	–	–	–	229,740	–	–	229,740
Acquisition of additional equity interests in non-wholly owned subsidiaries	–	–	–	–	(173,904)	–	–	(173,904)
Currency translation differences (Note (b))	–	419,471	–	–	–	–	–	419,471
Release of ordinary shares from Share Scheme Trust (Note 25(a)(a))	(139,015)	–	–	–	–	–	–	(139,015)
At December 31, 2019	6,137,329	462,913	1,157,727	2	(77)	–	273,252	8,031,146

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Other reserves (continued)

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 28 for detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2020 and 2019.

28 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("**2011 Plan**") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the "2012 Employee Stock Incentive Plan" ("**Pre-IPO ESOP**"). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900 as of December 31, 2020 and 2019. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 1,568,094,311 Class B ordinary shares.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

28 Share-based payments (continued)

Pre-IPO ESOP

Share options granted to employees

The share options have graded vesting terms, and vest in different schedules from the grant date over one year, 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as one year, all granted share options are vested on the first anniversary of the grant date. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months. For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date. For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively. For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

Under Pre-IPO ESOP, the Company also granted performance-based share options to certain employees, which are generally vested over a 10-year term. The performance goals are determined by the Board of Directors. For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

The options may be exercised at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the share options that have become vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2020	855,801,907	0.12
Forfeited during the year	(23,682,000)	0.33
Transferred to Share Scheme Trust (Note 25(a)(a))	(42,086,960)	0.10
Exercised during the year	(184,201,077)	0.17
Outstanding as of December 31, 2020	605,831,870	0.10
Exercisable as of December 31, 2020	281,564,590	0.25
Outstanding as of January 1, 2019	1,433,597,913	0.10
Forfeited during the year	(54,982,220)	0.31
Transferred to Share Scheme Trust (Note 25(a)(a))	(42,306,480)	0.10
Exercised during the year	(480,507,306)	0.04
Outstanding as of December 31, 2019	855,801,907	0.12
Exercisable as of December 31, 2019	340,290,647	0.20

The weighted-average remaining contract life for outstanding share options was 5.48 years as of December 31, 2020 (2019: 6.22 years).

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

RSUs granted to employees

The Company also granted RSUs to the Company's employees under Pre-IPO ESOP. The RSUs granted would vest on the second anniversary from the grant date, and in equal tranches over the remaining years of total vesting period as four or five years, on condition that employees remain in service without any performance requirements.

The RSUs may be settled at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the RSUs that have become vested.

Movements in the number of RSUs granted to the Company's employees under Pre-IPO ESOP and the respective weighted-average grant date fair value are as follows:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2019	207,161,980	0.23
Exercised during the year	(207,161,980)	0.23
Outstanding as of December 31, 2019 and 2020	—	—
Vested as of December 31, 2019 and 2020	—	—

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Group with best estimate.

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statement for aforementioned share-based awards granted to the Group's employees are RMB1,124,164,000 for the year ended December 31, 2020 (2019: RMB1,898,081,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share based awards granted to Lei Jun

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("Xiaomi Finance") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. No share option was exercised for the years ended December 31, 2020 and 2019.

Share Award Scheme

RSUs granted to employees

The Company granted performance-based RSUs to the Company's employees under Share Award Scheme. The RSUs granted would vest in different schedules from the service commencement date over one year, 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as one year, all granted RSUs are vested on the first anniversary of the service commencement date. For vesting schedule as 4 years, 25% of granted RSUs are vested on every anniversary of the service commencement date over the vesting period. For vesting schedule as 5 years, 40% of granted RSUs are vested on the second anniversary of the service commencement date, and every 20% of granted RSUs are vested on the third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 20% of granted RSUs are vested on the second anniversary of the service commencement date, and every 10% of granted RSUs are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Share Award Scheme (continued)

RSUs granted to employees (continued)

Movements in the number of RSUs granted to the Company's employees granted under Share Award Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2020	90,106,933	1.20
Granted during the year	137,947,024	1.77
Forfeited during the year	(20,867,644)	1.29
Transferred to Share Scheme Trust (Note 25(a)(a))	(31,785,195)	1.15
Outstanding as of December 31, 2020	175,401,118	1.65
Outstanding as of January 1, 2019	—	—
Granted during the year	98,449,031	1.20
Forfeited during the year	(5,415,702)	1.22
Transferred to Share Scheme Trust (Note 25(a)(a))	(234,396)	1.45
Exercised during the year	(2,692,000)	1.39
Outstanding as of December 31, 2019	90,106,933	1.20
Vested as of December 31, 2019	40,000	1.45

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 9.06 years as of December 31, 2020 (2019: 9.45 years).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The total expenses recognized in the consolidated income statement for RSUs granted to the Group's employees under Share Award Scheme are RMB703,929,000 for the year ended December 31, 2020 (2019: RMB229,886,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Post-IPO Share Option Scheme

Share options granted to employees

The Company granted performance-based share options to the Company's employees under Post-IPO Share Option Scheme. The share options have graded vesting terms, and vest in different schedules from the service commencement date over 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as 4 years, the granted share options are vested through 4 years with 25% to 50% shares vested on the second, third and fourth anniversary of the service commencement date unequally. For vesting schedule as 5 years, every 20% of granted share options are vested on the first, second, third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 50% of granted share options are vested on the fifth anniversary of the service commencement date, and every 10% of granted share options are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of the performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (HK$)
Outstanding as of January 1, 2020	—	—
Granted during the year	227,250,000	24.26
Outstanding as of December 31, 2020	227,250,000	24.26
Exercisable as of December 31, 2020	—	—

The weighted-average remaining contract life for outstanding share options was 9.68 years as of December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

28 Share-based payments (continued)

Post-IPO Share Option Scheme (continued)

Share options granted to employees (continued)

Fair value of share options

The Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Year ended December 31, 2020
Fair value per share	HK$13.60–24.50
Exercise price	HK$13.60–24.50
Risk-free interest rate	0.53%–0.67%
Dividend yield	—
Expected volatility	41.50%–42.55%
Expected terms	10 years

The weighted-average fair value of granted shares was HK$12.05 per share for the year ended December 31, 2020.

The total expenses recognized in the consolidated income statements for share options granted to the Group's employees under Post-IPO Share Option Scheme were RMB150,353,000 for the year ended December 31, 2020 (2019: nil).

Employee fund

On August 31, 2014, the Board of Directors of the Company approved the establishment of Employee Fund with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "**Lockup Period**"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of December 31, 2020.

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB349,873,000 for the year ended December 31, 2020 (2019: RMB73,755,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Other non-current liabilities

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Liabilities to fund investors (Note (a))	9,364,533	3,074,210
Lease liability (Note 16)	516,482	560,804
Others	120,413	121,197
	10,001,428	3,756,211

Note:

(a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "**Hubei Fund**"). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

30 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2020 and 2019, the carrying amounts of trade payables were primarily denominated in RMB, US$ and INR.

Trade payables and their aging analysis based on invoice date are as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Up to 3 months	68,909,758	57,942,872
3 to 6 months	2,312,665	1,136,595
6 months to 1 year	873,537	342,864
1 to 2 years	34,200	55,709
Over 2 years	68,696	49,900
	72,198,856	59,527,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

31 Other payables and accruals

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Amounts collected for third parties	2,642,533	1,428,500
Payroll and welfare payables	1,728,843	1,165,183
Deposits payable	1,956,126	1,114,853
Employee Fund (Note 28)	936,714	604,187
Accrual expenses	1,106,137	1,202,807
Payables for construction cost	1,807,120	1,275,467
Payables for investments	116,250	2,500
Other taxes payables	547,339	624,350
Lease liabilities (Note 16)	363,397	399,444
Payables related to share options and RSUs granted to employees	204,385	484,896
Deposits from customers	1,327,919	42
Others	882,892	799,114
	13,619,655	9,101,343

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2020 and 2019.

32 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Contract liabilities are presented in advance from customers, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2020, the total contract liabilities amounted to RMB11,116,695,000 (2019: RMB7,248,982,000), which will be recognized as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

33 Borrowings

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities (Note (a))	465,000	2,305,000
Fund raised through trusts (Note (b))	—	450,000
Secured borrowings (Note (c))	1,594,936	1,825,856
Unsecured borrowings (Note (d))	4,530,856	206,000
Convertible bonds (Note (e))	4,044,014	—
	10,634,806	4,786,856
Included in current liabilities		
Asset-backed securities (Note (a))	3,589,629	2,647,641
Fund raised through trusts (Note (b))	547,500	420,000
Secured borrowings (Note (c))	460,257	1,796,701
Unsecured borrowings (Note (d))	2,364,551	7,972,213
	6,961,937	12,836,555

Notes:

(a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("**ABS**"). As of December 31, 2020, the total ABS amounting to RMB4,054,629,000 (2019: RMB4,952,641,000) bore interest at 2.59%-7.50% per annum.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of December 31, 2020, the fund raised through trust amounting to RMB547,500,000 (2019: RMB870,000,000) bore interest 7.00% per annum. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2021.

(c) As of December 31, 2020, RMB2,055,193,000 (2019: RMB2,225,856,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB8,343,327,000 (2019: RMB4,082,853,000). The interest rate of these borrowings was 4.05%-4.66% per annum. Among these borrowings, RMB30,128,000 should be repaid by the end of March 8, 2021, RMB200,000,000 should be repaid by the end of May 10, 2021, RMB30,129,000 should be repaid by the end of September 7, 2021, RMB200,000,000 should be repaid by the end of November 10, 2021, RMB703,963,000 should be repaid by the end of March 23, 2027, RMB452,486,000 should be repaid by the end of December 12, 2027 and RMB438,487,000 should be repaid by the end of September 27, 2032.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

33 Borrowings (continued)

Notes (continued):

(d) The Group issued US$600,000,000 (equivalent to approximately RMB3,914,940,000) senior notes to professional investors on April 29, 2020 with a term to maturity of ten years and at interest rate 3.375% per annum. The net proceeds of the notes issued, after deducting underwriting commissions and certain offering expenses, was approximately US$589,900,000 (equivalent to approximately RMB3,849,039,000).

The Group issued RMB1,000,000,000 bonds in Mainland China on April 2, 2020 with a term to maturity of one year and at coupon rates 2.78% per annum.

The Group had RMB190,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 5.10% per annum, RMB210,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.59% per annum, RMB59,482,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.93% per annum, RMB88,539,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.31% per annum, RMB97,206,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.25% per annum, RMB133,212,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.85% per annum, RMB21,130,000 (December 31, 2019: nil) unsecured borrowings with interest rate 2.05% per annum, all of these borrowings should be repaid by the Group in 2021.

The Group had RMB400,000,000 (December 31, 2019: nil) and RMB200,000,000 (December 31, 2019: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in April and June of 2021, respectively. The Group had RMB500,000,000 (December 31, 2019: nil) of borrowings with interest rate 2.69% per annum secured by intra-group companies, which should be repaid by the end of November 20, 2023.

The Group had RMB206,000,000 (December 31, 2019: RMB206,000,000) unsecured borrowings with interest rate 4.66% per annum. Among of these borrowings, RMB21,000,000 should be repaid by the Group in 2021, and RMB185,000,000 should be repaid by the end of November 26, 2029.

(e) On December 17, 2020, the Group completed the issuance of 7-Year US$855,000,000 (equivalent to approximately RMB5,578,790,000) zero coupon guaranteed convertible bonds due on December 17, 2027 (the "**Bonds**") to third party professional investors (the "**bondholders**"). The bondholders have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Group at a conversion price of HK$36.74 per share, subject to adjustments. The Group will, at the option of the bondholders, redeem all or some only of their Bonds on December 17, 2025 at the principal amount. The Group may at any time after December 17, 2025 and prior to the maturity date redeem in whole, but not in part, (i) the Bonds for the time being outstanding at their principal amount, provided that the closing price of a share, for 20 out of 30 consecutive trading days was at least 130 percent of the conversion price, (ii) the Bonds at their principal amount, if, immediately prior to the date the notice of redemption is given, 90 percent or more in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and canceled. The outstanding principal amount of the Bonds is repayable by the Group upon the maturity of the Bonds on December 17, 2027, if not previously redeemed, converted or purchased and cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

33 Borrowings (continued)

Notes (continued):

(e) (continued):

The liabilities and equity components of the Bonds are presented as follows:

	RMB'000
The face value of convertible bond issued on the issue date	5,578,790
Issue premium	292,886
Gross proceeds	5,871,676
Less: transaction cost	(70,654)
Net proceeds	5,801,022
Less: equity component (Note 26)	(1,764,799)
Liability component on initial recognition	4,036,223
Interest expense (Note 10)	7,791
Liability component as of December 31, 2020	4,044,014

For the year ended December 31, 2020, the interest rates of the interest-bearing liabilities range from 2.05% to 7.50% per annum (2019: from 2.82% to 8.00%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB66,396,000 as of December 31, 2020 (2019: RMB122,961,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	592,355	560,577
— to be recovered within 12 months	1,485,113	845,799
	2,077,468	1,406,376
Deferred income tax liabilities:		
— to be settled after 12 months	(364,441)	(700,275)
— to be settled within 12 months	(2,511)	(2,588)
	(366,952)	(702,863)

The gross movement on the deferred income tax assets is as follows:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
At the beginning of the year	1,406,376	1,405,995
Credited to the consolidated income statement	671,092	381
At the end of the year	2,077,468	1,406,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

The gross movement on the deferred income tax liabilities is as follows:

	Year ended December 31, 2020 RMB'000	2019 RMB'000
At the beginning of the year	(702,863)	(871,395)
Credited to the consolidated income statement	335,911	168,532
At the end of the year	(366,952)	(702,863)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions RMB'000	Provision for impairment of inventories RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Tax losses RMB'000	Fair value changes of financial assets RMB'000	Credit loss allowance RMB'000	Unrealized gain on intra-group transactions RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	332,358	119,799	89,485	372,906	80,615	142,853	250,790	17,570	1,406,376
Credited/(debited) to consolidated income statement	188,650	106,927	(38,352)	58,071	(11,743)	340,665	3,071	23,803	671,092
At December 31, 2020	521,008	226,726	51,133	430,977	68,872	483,518	253,861	41,373	2,077,468
At January 1, 2019	231,460	385,369	93,677	359,199	80,341	92,961	156,440	6,548	1,405,995
Credited/(debited) to consolidated income statement	100,898	(265,570)	(4,192)	13,707	274	49,892	94,350	11,022	381
At December 31, 2019	332,358	119,799	89,485	372,906	80,615	142,853	250,790	17,570	1,406,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Deferred income taxes (continued)

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

As of December 31, 2020, the Group did not recognize deferred income tax assets of RMB453,352,000 (2019: RMB966,068,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB1,924,936,000 (2019: RMB3,479,308,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2020 amounting to RMB1,240,366,000 (2019: RMB27,395,000) can be carried forward indefinitely, and the remaining amount of RMB531,181,000 (2019: RMB3,377,006,000) will expire within 15 years (2019: 9 years).

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows (continued):

Deferred income tax liabilities:

	Changes in fair value of financial assets RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Business combination RMB'000	Total RMB'000
At January 1, 2020	(700,275)	—	(2,588)	(702,863)
Credited/(debited) to consolidated income statement	374,942	(39,108)	77	335,911
At December 31, 2020	(325,333)	(39,108)	(2,511)	(366,952)
At January 1, 2019	(868,381)	—	(3,014)	(871,395)
Credited to consolidated income statement	168,106	—	426	168,532
At December 31, 2019	(700,275)	—	(2,588)	(702,863)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Cash flow information

(a) Cash generated from operations

	Year Ended December 31,	
	2020	2019
	RMB'000	RMB'000
Profit before income tax	21,633,432	12,162,646
Adjustments for:		
— Depreciation of property and equipment, right-of-use assets and investment properties	1,042,895	895,273
— Amortization of intangible assets	665,566	485,786
— Gain on disposal of property and equipment	(6,475)	(5,909)
— Credit loss allowance for trade and other receivables	222,718	83,357
— Credit loss allowance for loan receivables	1,757,680	1,015,619
— Impairment provision for inventories	3,688,809	3,859,675
— Interest income	(963,555)	(930,889)
— Interest expense	3,364,852	528,460
— Dividend income	(81,407)	(347,205)
— Share of (gains)/losses of investments accounted for using the equity method	(1,380,904)	671,822
— (Gains)/losses on disposal of an investment accounted for using the equity method	(280,011)	13,376
— Fair value gains on long-term investments measured at fair value through profit or loss	(13,173,479)	(3,813,012)
— Share-based compensation	2,328,319	2,201,722
— Foreign exchange losses/(gains), net	693,222	(34,632)
— Investment income from short-term investments measured at fair value through profit or loss	—	(386,461)
Operating cash flows before changes in working capital		
— Increase in inventories	(11,602,421)	(6,964,428)
— Increase in trade receivables	(4,272,814)	(1,276,714)
— Decrease/(increase) in loan receivables	727,548	(3,448,312)
— Decrease in prepayments and other receivables	3,624,788	1,956,740
— Increase in restricted cash	(2,407,001)	(136,394)
— Increase in trade payables	10,341,399	13,534,575
— Increase in advance from customers	3,765,667	3,758,590
— Increase in warranty provision	609,431	983,654
— Increase in other payables and accruals	3,534,327	1,045,058
— (Decrease)/increase in other non-current liabilities	(784)	99,842
Cash generated from operations	23,831,802	25,952,239

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Cash flow information (continued)

(b) Proceeds from disposal of property and equipment

In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Net book amount (Note 14)	56,613	61,826
Gain on disposal of property and equipment	6,475	5,909
Proceeds from disposal of property and equipment	63,088	67,735

(c) Non-cash transactions

Other than addition of right-of-use assets and lease liabilities described in Note 16, the dilution gains of investments accounted for using the equity method recognized as described in Note 11(b) and the issue of shares as consideration of investment in an associate as described in Note 11(b), there were no material non-cash transactions for the year ended December 31, 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Cash flow information (continued)

(d) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities				
	Borrowing due within 1 year RMB'000	Borrowing due after 1 year RMB'000	Interest payable RMB'000	Lease liabilities RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2020	12,836,555	4,786,856	78,959	960,248	18,662,618
Cash flows	(9,542,628)	13,339,443	(499,711)	(493,899)	2,803,205
Accrued interest expenses	—	—	515,257	—	515,257
Foreign exchange adjustments	(51,917)	(319,094)	—	—	(371,011)
Reclassification from non-current to current	5,361,428	(5,361,428)	—	—	—
Equity component of convertibel bonds	—	(1,764,799)	—	—	(1,764,799)
Other non-cash movements	(1,641,501)	(46,172)	—	—	(1,687,673)
Acquisition — leases	—	—	—	413,530	413,530
Liabilities from financing activities as of December 31, 2020	6,961,937	10,634,806	94,505	879,879	18,571,127
Liabilities from financing activities as of January 1, 2019	3,075,194	7,856,143	96,192	858,833	11,886,362
Cash flows	1,790,061	4,829,238	(218,994)	(578,063)	5,822,242
Accrued interest expenses	—	—	201,761	—	201,761
Foreign exchange adjustments	(52,214)	108,711	—	—	56,497
Reclassification from non-current to current	8,024,034	(8,024,034)	—	—	—
Acquisition — leases	—	—	—	679,478	679,478
Others	(520)	16,798	—	—	16,278
Liabilities from financing activities as of December 31, 2019	12,836,555	4,786,856	78,959	960,248	18,662,618

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Contingencies

The Group, in the ordinary course of its business, is involved in various claims, suits, and legal proceedings that arise from time to time. Although based on currently available information, the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or result of operations, litigations are inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period. As of December 31, 2020 and 2019, no material provisions were recorded.

37 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the years but not yet incurred is as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Property and equipment	**1,558,000**	1,747,044
Intangible assets	**33,437**	28,810
Investments	**529,026**	217,506
	2,120,463	1,993,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

37 Commitments (continued)

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Not later than 1 year	620,398	305,186
Later than 1 year and not later than 5 years	41,660	—
Later than 5 years	14,924	—
	676,982	305,186

From January 1, 2019, in accordance with IFRS 16, the Group has recognized right-of-use assets for these leases, except for certain short-term leases and variable lease payments, see Note 16 for further information.

38 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the years presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the year.

Company	Relationship
Shunwei Ventures (Hong Kong) Ltd. (Note (a))	Associate of Leijun
1 more Inc. (Note (a))	Associate of the Group
Shanghai Chuangmi Technology Co., Ltd. (Note (a))	Associate of the Group
Miaobo Software Technology (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Kaco Industrial Co., Ltd. (Note (a))	Associate of the Group
70mai Co. (Note (a))	Associate of the Group
Hannto Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Runmi Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Chunmi Electronic Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai Longcheer Technology Co., Ltd. (Note 11(b))	Associate of the Group
Dongguan Powerise Fashion Technology Co., Ltd. (Note (a))	Associate of the Group
Liesheng Technology (Dongguan) Co., Ltd. (Note (a))	Associate of the Group
Dongguan Yingsheng Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Foshan Yunmi Electrical Technology Co., Ltd. (Note 11(b))	Associate of the Group
Yidian Inc. (Note (a))	Associate of the Group
Ninebot Limited (Note 11(b))	Associate of the Group
Beijing Yuemi Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing SmartMi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing iQIYI Science&Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Miiiw Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing KingSmith Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Kingsoft Cloud Network Technology Co., Ltd. (Note 11(b))	Associate of the Group
Nanjing Jiqidao Smart Technology Co., Ltd. (Note 11(b))	Associate of the Group
Nanchang Blackshark Technology Co., Ltd. (Note 11(b))	Associate of the Group
Nanchang Longcheer Techolongy Co., Ltd. (Note 11(b))	Associate of the Group
Tianjin HUALAI Technology Co., Ltd. (Note (a))	Associate of the Group
Tianjin Smate Technology Co., Ltd. (Note (a))	Associate of the Group
Ningbo Minij Trading Co., Ltd. (Note (a))	Associate of the Group
Ningbo Scishare Techoloogy CO., Ltd. (Note (a))	Associate of the Group
Ningbo Lofans Home Appliance Co., Ltd. (Note (a))	Associate of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(a) Names and relationships with related parties (continued)

Company	Relationship
Anhui Huami Information Technology Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Fengmi Technology Co., Ltd. (Note (a))	Associate of the Group
Turok Steinhardt (Beijing) Optical Technology Co., Ltd. (Note (a))	Associate of the Group
Shoulder Electronics Limited (Note (a))	Associate of the Group
QingHeXiaoBei (Wuxi) Inc. (Note (a))	Associate of the Group
LeXiu Technology (Hangzhou) Co., Ltd. (Note (a))	Associate of the Group
Jiangsu Zimi Electronic Technology Co., Ltd. (Note 11(b))	Associate of the Group
Zhejiang Hooeasy Smart Technology Co., Ltd. (Note (a))	Associate of the Group
Zhejiang Xingyue Electric Equipment Co., Ltd. (Note (a))	Associate of the Group
Luokeshidai Technology (Shenzhen) Co., Ltd. (Note 11(b))	Associate of the Group
SOOCAS Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Lumi Technology Co., Ltd. (Note (a))	Associate of the Group
Zhuhai Kingsoft Online Game Technology Co., Ltd. (Note 11(b))	Associate of the Group
Zhenshi Information Technology (Shanghai) Co., Ltd. (Note (a))	Associate of the Group
MiaoMiaoCe Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Zimi Communication Technology (Jiangsu) Co., Ltd. (Note 11(b))	Associate of the Group
Chunmi Technology (Wuhu) Co., Ltd. (Note 11(b))	Associate of the Group
Forewin FPC (Suzhou) CO., Ltd. (Note (a))	Associate of the Group
Westhouse Holdings Limited (Note 11(b))	Associate of the Group
Dreame Technology (Tianjin) Ltd. (Note (a))	Associate of the Group
Qingdao Yeelink Information Technology Co., Ltd. (Note (a))	Associate of the Group
ChingMi (Beijing) Technology Co., Ltd. (Note 11(b))	Associate of the Group
PL-Mi (Shanghai) Co., Ltd. (Note 11(b))	Associate of the Group
Qiji (Xiamen) Technology Co., Ltd. (Note (a))	Associate of the Group
Longcheer Technology (Huizhou) Co., Ltd. (Note 11(b))	Associate of the Group
Beijing Roborock Technology Co., Ltd. (Note 11(b))	Associate of the Group
Shanghai HOTO Technology Co., Ltd. (Note 11(b))	Associate of the Group

Notes:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(b) Significant transactions with related parties

	Year ended December 31, 2020 RMB'000	2019 RMB'000
(i) Sales of goods and services		
Associates of the Group	1,356,945	1,666,141
Associates of Lei Jun	3,619	2,156
	1,360,564	1,668,297
(ii) Purchases of goods and services		
Associates of the Group	37,204,257	27,221,258
Associates of Lei Jun	4,282	517
	37,208,539	27,221,775

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(c) Year end balances with related parties

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
(i) Trade receivables from related parties		
Associates of the Group	234,741	324,027
Associates of Lei Jun	3,782	—
	238,523	324,027
(ii) Trade payables to related parties		
Associates of the Group	8,052,768	6,061,497
Associates of Lei Jun	1,494	1,829
	8,054,262	6,063,326
(iii) Other receivables from related parties		
Associates of the Group	335,788	373,071
(iv) Other payables to related parties		
Associates of the Group	397,540	861,736
Controlled by a director	—	79,466
Associates of Lei Jun	91,047	7,476
	488,587	948,678
(v) Prepayments		
Associates of the Group	206,310	136,899
(vi) Advance from customers		
Associates of the Group	986,340	28,308
Associates of the Lei Jun	3,040	14
	989,380	28,322

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Related party transactions (continued)

(d) Loans to related parties

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Loans to associates:		
At the beginning of the year	37,802	7,979
Loans advanced	—	34,934
Loans repaid	(6,787)	(6,000)
Interest charged	16	962
Interest received	(81)	(70)
Less: credit loss allowance	(19,095)	—
Currency translation differences	(658)	(3)
At the end of the year	11,197	37,802

(e) Key management compensation

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Salaries	24,960	11,676
Discretionary bonuses	2,032	7,600
Share-based compensation	454,151	428,811
Employer's contribution to pension schedule	1,282	1,159
	482,425	449,246

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Events after the reporting period

On March 11, 2021, the Company announced that it has an intention to repurchase shares of the Company in the open market from time to time at a maximum aggregate price of HK$10 billion, which will not exceed 10% of the total number of the issued shares as at June 23, 2020. The Company will conduct the share repurchase under the requirement of Listing Rules.

On March 24, 2021, the Company entered into a share purchase agreement with shareholders of Zimi International Incorporation ("**Zimi**"), pursuant to which the Company has conditionally agreed to acquire, and each shareholder of Zimi has conditionally agreed to sell 49,270,778 shares, representing an aggregate of 50.09% of the entire issued share capital of Zimi, at a total consideration of approximately US$204.73 million, which shall be satisfied (a) as to approximately US$176.28 million in cash; and (b) as to approximately US$28.45 million by the allotment and issue of 8,670,924 ordinary shares, credited as fully paid by the Company. Upon closing, Zimi will become a wholly-owned subsidiary of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31,	
	2020	2019
	RMB'000	RMB'000
Assets		
Non-current assets		
Property and equipment	355	35
Investment in subsidiaries	26,186,571	17,854,701
Other assets	73	78
	26,186,999	17,854,814
Current assets		
Prepayments and other receivables	37,520,429	21,319,432
Cash and cash equivalents	4,594	58,359
	37,525,023	21,377,791
Total assets	63,712,022	39,232,605
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	409	388
Reserves (Note 40(b))	62,660,813	39,223,583
Total equity	62,661,222	39,223,971
Liabilities		
Current liabilities		
Other payables and accruals	106,819	8,634
Borrowings	943,981	—
	1,050,800	8,634
Total liabilities	1,050,800	8,634
Total equity and liabilities	63,712,022	39,232,605

The balance sheet of the Company was approved by the Board of Directors on March 24, 2021 and was signed on its behalf:

Lei Jun

Lin Bin

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	–	9,392	39,223,583
Purchase of own shares	(454,872)	–	–	–	–	–	–	–	(454,872)
Cancellation of shares	1,345,663	(1,349,709)	–	–	–	–	–	–	(4,046)
Release of ordinary shares from Share Scheme Trust	125,807	687,235	(783,805)	–	–	–	–	–	29,237
Employees share-based compensation scheme:									
– value of employee services (Note 28)	–	–	1,978,446	–	–	–	–	–	1,978,446
– exercise of share options and restricted stock units (Note 28)	–	1,511,225	(1,179,339)	–	–	–	–	–	331,886
Currency translation differences (Note (a))	–	–	–	(2,032,656)	–	–	–	–	(2,032,656)
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–	–	–	(43,501)	(43,501)
Share of other reserves of investments accounted for using the equity method	–	–	–	–	29,363	–	–	–	29,363
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	–	–	–	–	–	–	–	(4,773)	(4,773)
Issuance of convertible bonds (Note 33(e))	–	–	–	–	–	–	1,764,799	–	1,764,799
Issuance of shares upon placement (Note 25(a))	–	19,907,920	–	–	–	–	–	–	19,907,920
Share consideration for acquisition of an associate (Note 11(b))	–	320,384	–	–	320,384	–	–	–	640,768
Others	–	–	–	–	(13,188)	–	–	–	(13,188)
Profit for the year	–	–	–	–	–	1,307,847	–	–	1,307,847
At December 31, 2020	(36,224)	64,655,891	6,255,525	(538,591)	362,509	(9,764,214)	1,764,799	(38,882)	62,660,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company (continued)

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Others RMB'000	Total RMB'000
At January 1, 2019	–	43,851,282	5,436,038	985,481	25,950	(11,148,160)	9,392	39,159,983
Purchase of own shares	(2,932,111)	–	–	–	–	–	–	(2,932,111)
Cancellation of shares	1,879,289	(1,882,527)	–	–	–	–	–	(3,238)
Release of ordinary shares from Share Scheme Trust	–	167,447	(139,015)	–	–	–	–	28,432
Employees share-based compensation scheme:								
– value of employee services (Note 28)	–	–	2,127,967	–	–	–	–	2,127,967
– exercise of share options and restricted stock units (Note 28)	–	1,442,634	(1,184,767)	–	–	–	–	257,867
Currency translation differences (Note (a))	–	–	–	508,584	–	–	–	508,584
Profit for the year	–	–	–	–	–	76,099	–	76,099
At December 31, 2019	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	9,392	39,223,583

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

Xiaomi Corporation

Condensed Consolidated Interim Financial Information

For the three months ended March 31, 2021

Report on Review of Interim Financial Information

羅兵咸永道

To the Board of Directors of Xiaomi Corporation
(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 2 to 38, which comprises the condensed consolidated balance sheet of Xiaomi Corporation (the "**Company**") and its subsidiaries (together, the "**Group**") as of March 31, 2021 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, May 26, 2021

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2021
*(Expressed in Renminbi ("**RMB**"))*

	Note	**Unaudited Three months ended March 31, 2021 RMB'000**	2020 RMB'000
Revenue	6	**76,882,163**	49,702,167
Cost of sales	6, 9	**(62,720,932)**	(42,143,710)
Gross profit		**14,161,231**	7,558,457
Selling and marketing expenses	9	**(4,163,475)**	(2,624,873)
Administrative expenses	9	**(987,652)**	(781,533)
Research and development expenses	9	**(3,011,991)**	(1,870,984)
Fair value changes on investments measured at fair value through profit or loss	14	**2,063,207**	347,846
Share of gains of investments accounted for using the equity method	11	**8,989**	130,738
Other income	7	**152,053**	73,727
Other losses, net	8	**(64,699)**	(510,190)
Operating profit		**8,157,663**	2,323,188
Finance income	10	**275,208**	291,946
Finance costs	10	**634,009**	(161,045)
Profit before income tax		**9,066,880**	2,454,089
Income tax expenses	12	**(1,277,973)**	(294,195)
Profit for the period		**7,788,907**	2,159,894
Attributable to:			
— Owners of the Company		**7,792,889**	2,163,515
— Non-controlling interests		**(3,982)**	(3,621)
		7,788,907	2,159,894
Earnings per share (expressed in RMB per share):	13		
Basic		**0.311**	0.091
Diluted		**0.302**	0.089

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31, 2021
(Expressed in RMB)

	Note	Unaudited Three months ended March 31, **2021** **RMB'000**	 2020 RMB'000
Profit for the period		**7,788,907**	2,159,894
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive (loss)/income of investments accounted for using the equity method	11	**(55,217)**	23,436
Net income from changes in fair value of financial assets at fair value through other comprehensive income		**3,715**	—
Currency translation differences		**97,164**	8,345
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**358,708**	485,447
Other comprehensive income for the period, net of tax		**404,370**	517,228
Total comprehensive income for the period		**8,193,277**	2,677,122
Attributable to:			
— Owners of the Company		**8,196,150**	2,675,233
— Non-controlling interests		**(2,873)**	1,889
		8,193,277	2,677,122

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

As of March 31, 2021
(Expressed in RMB)

	Note	**Unaudited As of March 31, 2021 RMB'000**	Audited As of December 31, 2020 RMB'000
Assets			
Non-current assets			
Property and equipment		**6,652,138**	6,305,657
Intangible assets		**3,981,590**	4,265,619
Investments accounted for using the equity method	11	**13,173,876**	12,781,995
Long-term investments measured at fair value through profit or loss	14	**38,765,178**	35,215,319
Deferred income tax assets	23	**1,717,411**	2,011,072
Long-term bank deposits		**13,406,709**	9,608,677
Long-term investments measured at amortized cost	14	**354,066**	232,798
Other non-current assets	19, 20	**8,756,654**	6,975,851
		86,807,622	77,396,988
Current assets			
Inventories	18	**49,537,348**	41,670,719
Trade receivables	16	**12,638,874**	10,161,019
Loan receivables	15	**7,636,143**	8,919,088
Prepayments and other receivables	17	**22,995,233**	16,181,520
Bills receivables measured at fair value through other comprehensive income		**875,972**	200,000
Short-term investments measured at fair value through other comprehensive income	14	**1,119,270**	797,456
Short-term investments measured at amortized cost	14	**1,314,541**	—
Short-term investments measured at fair value through profit or loss	14	**22,855,966**	22,376,387
Short-term bank deposits		**34,939,507**	17,598,946
Restricted cash		**2,073,854**	3,625,257
Cash and cash equivalents		**34,279,506**	54,752,443
		190,266,214	176,282,835
Total assets		**277,073,836**	253,679,823

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As of March 31, 2021
(Expressed in RMB)

	Note	**Unaudited As of March 31, 2021 RMB'000**	Audited As of December 31, 2020 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	21	**410**	409
Reserves	21	**131,935,957**	123,691,287
		131,936,367	123,691,696
Non-controlling interests		**318,979**	321,819
Total equity		**132,255,346**	124,013,515
Liabilities			
Non-current liabilities			
Borrowings	22	**13,612,704**	10,634,806
Deferred income tax liabilities	23	**378,966**	300,556
Warranty provision		**844,056**	802,590
Other non-current liabilities	25	**10,181,834**	10,001,428
		25,017,560	21,739,380
Current liabilities			
Trade payables	26	**82,306,095**	72,198,856
Other payables and accruals	27	**14,664,300**	13,619,655
Advance from customers		**11,644,068**	11,999,086
Borrowings	22	**7,392,181**	6,961,937
Income tax liabilities		**826,122**	674,298
Warranty provision		**2,968,164**	2,473,096
		119,800,930	107,926,928
Total liabilities		**144,818,490**	129,666,308
Total equity and liabilities		**277,073,836**	253,679,823

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2021
(Expressed in RMB)

		Unaudited							
		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2021		409	(36,224)	64,655,891	8,158,661	50,912,959	123,691,696	321,819	124,013,515
Comprehensive income									
Profit for the period		—	—	—	—	7,792,889	7,792,889	(3,982)	7,788,907
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive loss of investments accounted for using the equity method	11	—	—	—	(55,217)	—	(55,217)	—	(55,217)
Net gains from changes in fair value of financial assets at fair value through other comprehensive income		—	—	—	3,715	—	3,715	—	3,715
Currency translation differences		—	—	—	96,055	—	96,055	1,109	97,164
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences		—	—	—	358,708		358,708	—	358,708
Total comprehensive income		—	—	—	403,261	7,792,889	8,196,150	(2,873)	8,193,277

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the three months ended March 31, 2021
(Expressed in RMB)

		Unaudited							
		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Transactions with owners in their capacity as owners									
Purchase of own shares	21	—	(421,660)	—	—	—	(421,660)	—	(421,660)
Release of ordinary shares from Share Scheme Trusts	21	—	—	204,038	(199,449)	—	4,589	—	4,589
Share of other reserves of investments accounted for using the equity method	11	—	—	—	172,989	—	172,989	—	172,989
Employees share-based compensation scheme:									
— value of employee services	24	—	—	—	272,930	—	272,930	33	272,963
— exercise of share options and restricted stock units	21, 24	1	—	127,808	(108,136)	—	19,673	—	19,673
Appropriation to general reserve		—	—	—	2,562	(2,562)	—	—	—
Total transactions with owners in their capacity as owners		1	(421,660)	331,846	140,896	(2,562)	48,521	33	48,554
Balance at March 31, 2021		410	(457,884)	64,987,737	8,702,818	58,703,286	131,936,367	318,979	132,255,346

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the three months ended March 31, 2021
(Expressed in RMB)

		Unaudited							
		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2020		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676
Comprehensive income									
Profit for the period		—	—	—	—	2,163,515	2,163,515	(3,621)	2,159,894
Other comprehensive income									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive income of investments accounted for using the equity method	11	—	—	—	23,436	—	23,436	—	23,436
Currency translation differences		—	—	—	2,835	—	2,835	5,510	8,345
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences		—	—	—	485,447	—	485,447	—	485,447
Total comprehensive income		—	—	—	511,718	2,163,515	2,675,233	1,889	2,677,122

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the three months ended March 31, 2021
(Expressed in RMB)

		Unaudited							
		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Transactions with owners in their capacity as owners									
Cancellation of shares	21	—	890,791	(894,058)	—	—	(3,267)	—	(3,267)
Release of ordinary shares from Share Scheme Trusts	21	—	—	241,546	(230,528)	—	11,018	—	11,018
Share of other reserves of investments accounted for using the equity method	11	—	—	—	32,597	—	32,597	—	32,597
Employees share-based compensation scheme:									
— value of employee services	24	—	—	—	485,278	—	485,278	105	485,383
— exercise of share options and restricted stock units	21, 24	1	—	424,982	(376,871)	—	48,112	—	48,112
Appropriation to general reserve		—	—	—	15,574	(15,574)	—	—	—
Total transactions with owners in their capacity as owners		1	890,791	(227,530)	(73,950)	(15,574)	573,738	105	573,843
Balance at March 31, 2020		389	(162,031)	43,351,306	8,468,914	32,920,967	84,579,545	329,096	84,908,641

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2021
(Expressed in RMB)

	Unaudited Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	**2,036,329**	(7,518,535)
Income tax paid	**(582,343)**	(686,804)
Net cash generated from/(used in) operating activities	**1,453,986**	(8,205,339)
Cash flows from investing activities		
Capital expenditures	**(1,131,037)**	(642,252)
Proceeds from disposal of property and equipment	**2,063**	3,754
Placement of short-term bank deposits	**(24,847,697)**	(10,664,639)
Withdrawal of short-term bank deposits	**7,682,822**	19,047,866
Placement of long-term bank deposits	**(3,808,032)**	(1,790,064)
Purchase of short-term investments measured at fair value through profit or loss	**(62,513,666)**	(20,625,058)
Proceeds from maturity of short-term investments measured at fair value through profit or loss	**61,980,859**	24,140,390
Purchase of short-term investments measured at fair value through other comprehensive income	**(536,565)**	—
Proceeds from maturity of short-term investments measured at fair value through other comprehensive income	**222,301**	—
Purchase of long-term investments measured at amortized cost	**(119,225)**	—
Purchase of short-term investments measured at amortized cost	**(1,314,541)**	—
Interest income received	**241,783**	394,375
Investment income received	**196,740**	61,362
Purchase of long-term investments measured at fair value through profit or loss	**(1,986,100)**	(2,449,658)
Proceeds from disposal of long-term investments measured at fair value through profit or loss	**299,652**	733,528
Purchase of investments accounted for using the equity method	**(152,097)**	—
Proceeds from disposal of investments accounted for using the equity method	**223,579**	—
Dividends received	**12,488**	787
Net cash (used in)/generated from investing activities	**(25,546,673)**	8,210,391

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the three months ended March 31, 2021
(Expressed in RMB)

	Unaudited Three months ended March 31, 2021 RMB'000	2020 RMB'000
Cash flows from financing activities		
Proceeds from borrowings	**4,541,903**	3,516,778
Repayment of borrowings	**(1,271,102)**	(4,767,579)
Finance expenses paid	**(90,522)**	(118,262)
Withdrawal of restricted cash	**500,000**	180,203
Net proceeds from exercise of share options	**34,769**	92,440
Payment of lease liabilities	**(131,481)**	(134,909)
Net cash generated from/(used in) financing activities	**3,583,567**	(1,231,329)
Net decrease in cash and cash equivalents	**(20,509,120)**	(1,226,277)
Cash and cash equivalents at the beginning of the period	**54,752,443**	25,919,861
Effects of exchange rate changes on cash and cash equivalents	**36,183**	380,103
Cash and cash equivalents at the end of the period	**34,279,506**	25,073,687

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "**Company**"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "**Group**") are principally engaged in development and sales of smartphones, internet of things ("**IoT**") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of this interim financial information.

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of March 31, 2021, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "**Interim Financial Information**"). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information was approved by the board of directors of the Company on May 26, 2021.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 Basis of preparation

The Interim Financial Information has been prepared in accordance with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting", issued by the International Accounting Standards Board ("**IASB**").

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2020 which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") by the Group as set out in the 2020 annual report of the Company dated March 24, 2021 (the "**2020 Financial Statements**").

3 Significant accounting policies

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020, as described in the 2020 Financial Statements, except for the adoption of amended standards as set out below.

New and amended standards adopted by the Group

The following amended standards are mandatory for the first time for the Group's financial year beginning on January 1, 2021 and are applicable for the Group:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 on Interest Rate Benchmark Reform — Phase 2

The adoption of these amendments to standards has had no significant impact on the results and the financial position of the Group.

4 Significant accounting estimates

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were substantially the same as those applied to the 2020 Financial Statements.

5 Financial risk management and financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's policies on financial risk management were set out in the 2020 Financial Statements and there have been no significant changes in the financial risk management policies for the three months ended March 31, 2021.

5.2 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at March 31, 2021.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
Assets				
Long-term investments measured at fair value through profit or loss (Note 14)	**7,617,301**	**—**	**31,147,877**	**38,765,178**
Short-term investments measured at fair value through profit or loss (Note 14)	**—**	**—**	**22,855,966**	**22,855,966**
Short-term investments measured at fair value through other comprehensive income (Note 14)	**1,119,270**	**—**	**—**	**1,119,270**
Bills receivables measured at fair value through other comprehensive income	**—**	**—**	**875,972**	**875,972**
	8,736,571	**—**	**54,879,815**	**63,616,386**

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)				
Assets				
Long-term investments measured at fair value through profit or loss (Note 14)	6,377,087	—	28,838,232	35,215,319
Short-term investments measured at fair value through profit or loss (Note 14)	—	—	22,376,387	22,376,387
Short-term investments measured at fair value through other comprehensive income (Note 14)	797,456	—	—	797,456
Bills receivables measured at fair value through other comprehensive income	—	—	200,000	200,000
	7,174,543	—	51,414,619	58,589,162

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets mainly include long-term investments measured at fair value through profit or loss and short-term investments measured at fair value through profit or loss.

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the three months ended March 31, 2021 and 2020.

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	**28,838,232**	17,028,273
Additions	**1,773,828**	1,286,398
Disposals	**(203,512)**	(81,678)
Changes in fair value	**720,491**	41
Transfer to long-term investments accounted for using the equity method	**(145,044)**	—
Exchange gains	**163,882**	140,857
At the end of the period	**31,147,877**	18,373,891
Net unrealized gains for the period	**719,120**	41

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the three months ended March 31, 2021 and 2020.

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	**22,376,387**	16,463,390
Additions	**62,513,666**	20,625,058
Disposals	**(62,177,599)**	(24,201,752)
Changes in fair value	**212,875**	117,544
Exchange losses	**(69,363)**	—
At the end of the period	**22,855,966**	13,004,240
Net unrealized gains for the period	**96,056**	56,182

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 14), and short-term investments measured at fair value through profit or loss (Note 14). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc.

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)		**As of March 31, 2021**	As of December 31, 2020	
Long-term investments measured at fair value through profit or loss	**31,147,877**	28,838,232	Expected volatility	**34%–62%**	28%–71%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("**DLOM**")	**15%–30%**	10%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	**0.1%–3%**	0.1%–5%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	**22,855,966**	22,376,387	Expected rate of return	**1%–4%**	1%–7%	The higher the expected rate of return, the higher the fair value

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the three months ended March 31, 2021.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, short-term investments measured at amortized cost, long-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowings, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

6 Segment information

The Group's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smartphones
- IoT and lifestyle products
- Internet services
- Others

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of gains of investments accounted for using the equity method, other income, other losses, net, finance income, finance costs and income tax expenses are also not allocated to individual operating segments.

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services (including online game and fintech business). Others segment primarily comprises revenue from the Group's hardware repair services for products and sale of materials.

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated income statement. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the three months ended March 31, 2021 and 2020. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

6 Segment information (continued)

The segment results for the three months ended March 31, 2021 and 2020 are as follows:

	Three months ended March 31, 2021				
	Smartphones RMB'000	**IoT and lifestyle products RMB'000**	**Internet services RMB'000**	**Others RMB'000**	**Total RMB'000**
(Unaudited)					
Segment revenues	**51,490,983**	**18,243,267**	**6,570,848**	**577,065**	**76,882,163**
Cost of sales	**(44,857,384)**	**(15,590,732)**	**(1,816,119)**	**(456,697)**	**(62,720,932)**
Gross profit	**6,633,599**	**2,652,535**	**4,754,729**	**120,368**	**14,161,231**

	Three months ended March 31, 2020				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
(Unaudited)					
Segment revenues	30,324,723	12,984,208	5,900,696	492,540	49,702,167
Cost of sales	(27,872,334)	(11,242,932)	(2,529,144)	(499,300)	(42,143,710)
Gross profit/(loss)	2,452,389	1,741,276	3,371,552	(6,760)	7,558,457

For the three months ended March 31, 2021 and 2020, the geographical information on the total revenues is as follows:

	Three months ended March 31,			
	2021		2020	
	RMB'000 (Unaudited)	**%**	RMB'000 (Unaudited)	%
Mainland China	**39,473,714**	**51.3**	24,870,044	50.0
Rest of the world (Note(a))	**37,408,449**	**48.7**	24,832,123	50.0
	76,882,163		49,702,167	

Note:

(a) *Revenues outside mainland China are mainly from India and Europe.*

The major customers which contributed nearly 10% of the total revenue of the Group for the three months ended March 31, 2021 and 2020 are listed as below:

	Three months ended March 31,	
	2021 % (Unaudited)	2020 % (Unaudited)
Customer A	**12.6**	9.4

All the revenues derived from other single external customer were less than 10% of the Group's total revenues during the three months ended March 31, 2021 and 2020.

7 Other income

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants	**43,742**	14,988
Value-added tax and other tax refunds	**64,352**	30,429
Dividend income	**12,488**	787
Additional deduction of input value added tax	**31,471**	27,523
	152,053	73,727

8 Other losses, net

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gains on disposal of an investment accounted for using the equity method	**182,577**	—
Foreign exchanges losses, net	**(251,811)**	(503,346)
Impairment on an investment accounted for using the equity method	**—**	(25,976)
Others	**4,535**	19,132
	(64,699)	(510,190)

9 Expenses by nature

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**57,003,065**	36,844,207
Provision for impairment of inventories (Note 18)	**317,118**	409,339
Royalty fees	**2,159,659**	1,526,460
Employee benefit expenses	**3,383,311**	2,209,921
Depreciation of property and equipment, right-of-use assets and investment properties	**359,695**	229,692
Amortization of intangible assets	**297,635**	122,228
Promotion and advertising expenses	**1,132,661**	851,772
Content fees to game developers and video providers	**683,452**	688,934
Credit loss allowance for loan receivables	**58,553**	491,554
Consultancy and professional service fees	**287,555**	194,210
Cloud service, bandwidth and server custody fees	**573,782**	453,912
Warranty expenses	**1,072,526**	637,878

10 Finance income and costs

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	**275,208**	291,946

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
Finance costs:		
Interest expense from liabilities to fund investors (Note 25)	**(788,017)**	41,006
Interest expense from borrowings (Note 22) and lease liabilities (Note 19)	**154,008**	120,039
	(634,009)	161,045

11 Investments accounted for using the equity method

	As of March 31, 2021	As of December 31, 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Investments in associate accounted for using the equity method		
— Listed entities (Note (a))	**8,071,406**	7,994,282
— Unlisted entities	**5,102,470**	4,787,713
	13,173,876	12,781,995

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	**12,781,995**	9,300,507
Additions	**297,141**	—
Disposals	**(32,021)**	—
Share of gains	**8,989**	130,738
Share of other comprehensive (loss)/income	**(55,217)**	23,436
Share of changes of other reserves	**172,989**	32,597
Impairment provision	**—**	(25,976)
At the end of the period	**13,173,876**	9,461,302

Note:

(a) As at March 31, 2021, the fair value of the investments in associates which were listed entities was RMB25,825,694,000 (December 31, 2020: RMB27,255,565,000).

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation and other relevant facts and circumstances, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

12 Income tax expenses

The income tax expenses of the Group during the periods presented are analyzed as follows:

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	**905,902**	532,406
Deferred income tax	**372,071**	(238,211)
Income tax expenses	**1,277,973**	294,195

Income tax expenses is recognized based on management's best knowledge of the income tax rates that would be applicable to the full financial year.

Notes:

*(a) Enterprise income tax in mainland China ("**EIT**")*

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 24), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("BVI") are exempt from BVI income taxes.

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax (of which the tax rate was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect), under which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess.

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 25% to 35% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries in mainland China are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. ("Xiaomi Mobile") was qualified as a "Key Software Enterprise" in the third quarter of 2018 and renewed this qualification annually, hence it enjoys a preferential income tax rate of 10% from 2017 to 2020. The directors of the Company consider Xiaomi Mobile can still be qualified upon annual renewal and hence continues to enjoy the preferential income tax rate of 10% for the three months ended March 31, 2021.

Xiaomi Digital Technology Co., Ltd. ("Xiaomi Digital") was qualified as a "High and New Technology Enterprise" in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020. Xiaomi Digital is in the process of renewing this qualification. The directors of the Company consider it can still be qualified upon renewal and hence continues to enjoy the preferential income tax rate of 15% for the three months ended March 31, 2021.

12 Income tax expenses (continued)

Notes (continued):

(f) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The State Taxation Administration of The People's Republic of China announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. The State Taxation Administration of The People's Republic of China announced in March 2021 to extend the preferential claim percentage to December 31, 2023. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the period.

*(g) Withholding tax in mainland China ("**WHT**")*

According to the New Corporate Income Tax Law ("New EIT Law"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings of these subsidiaries was accrued as of the end of each reporting period.

13 Earnings per share

(a) *Basic*

Basic earnings per share for the three months ended March 31, 2021 and 2020 are calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the periods.

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	**7,792,889**	2,163,515
Weighted average number of ordinary shares in issue (thousand shares)	**25,064,362**	23,835,403
Basic earnings per share (expressed in RMB per share)	**0.311**	0.091

(b) *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	**7,792,889**	2,163,515
Add: Interest expense on convertible bonds	**39,091**	—
Net profit used to determine diluted earnings per share	**7,831,980**	2,163,515
Weighted average number of ordinary shares in issue (thousand shares)	**25,064,362**	23,835,403
Adjustments for restricted shares units ("**RSUs**") and share options granted to employees (thousand shares)	**618,933**	493,070
Adjustments for share consideration for acquisition of an associate (thousand shares)	**27,856**	—
Adjustments for convertible bonds (thousand shares)	**180,447**	—
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	**25,891,598**	24,328,473
Diluted earnings per share (expressed in RMB per share)	**0.302**	0.089

14 Investments

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Current assets		
Short-term investments measured at		
— Amortized cost (Note (a))	**1,314,541**	—
— Fair value through other comprehensive income (Note (b))	**1,119,270**	797,456
— Fair value through profit or loss (Note (c))	**22,855,966**	22,376,387
	25,289,777	23,173,843
Non-current assets		
Long-term investments measured at amortized cost (Note (b))	**354,066**	232,798
Long-term investments measured at fair value through profit or loss		
— Equity investments (Note (d))	**15,569,193**	13,969,457
— Preferred shares investments (Note (e))	**23,195,985**	21,245,862
	39,119,244	35,448,117

Notes:

(a) Short-term investments measured at amortized cost are wealth management products ("**WMPs**"), denominated in United States dollar ("**US$**"), with guaranteed returns ranging from 0.70% to 0.75% per annum for the three months ended March 31, 2021. The investments are held for collection of contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.

(b) These investments measured at fair value through other comprehensive income and amortized cost are mainly debt securities, denominated in Hong Kong dollar ("**HK$**") and US$, where the contractual cash flows are solely principal and interest. The securities are mainly issued by banks and the fair value of such debt securities was determined based on quoted price on interbank bond market. None of these investments are past due.

Debt securities that are only held for collection of contractual cash flows are measured at amortized cost. Debt securities that are held for both collection of contractual cash flows and for selling, are measured at fair value through other comprehensive income.

(c) The short-term investments measured at fair value through profit or loss are WMPs, denominated in RMB and US$, with expected rates of return ranging from 0.65% to 3.85% for the three months ended March 31, 2021. The returns on all of these WMPs are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy (refer to Note 5.2 for details).

(d) The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of March 31, 2021, the Group has not elected to recognize the fair value gains or losses on these equity investments in OCI.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 5.2.

(e) For the three months ended March 31, 2021, the Group made aggregate preferred shares investments of RMB1,679,828,000. These investees are principally engaged in sales of goods and provision of internet services.

The preferred shares investments in these investees are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. For the major assumptions used in the valuation for investment in private companies, please refer to Note 5.2.

Amounts recognized in profit or loss of investments measured at fair value through profit or loss

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fair value changes on equity investments	**900,805**	385,848
Fair value changes on preferred shares investments	**949,527**	(155,546)
Fair value changes on short-term investments measured at fair value through profit or loss	**212,875**	117,544
	2,063,207	347,846

15 Loan receivables

	As of March 31, 2021	As of December 31, 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Unsecured loan	**8,795,169**	11,350,989
Secured loan	**1,182,861**	377,183
Less: credit loss allowance	**(2,341,887)**	(2,809,084)
	7,636,143	8,919,088

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods granted by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB. The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition. The Group measures credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("**ECL**") under IFRS 9 Financial Instruments. The key judgments and assumptions include determination of significant increase in credit risk, definition of default and credit-impaired assets, projecting the PD, LGD and EAD, forward-looking information incorporated in the ECL models, and grouping of instruments for losses measured on a collective basis.

16 Trade receivables

The Group usually allows a credit period within 180 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Trade receivables		
Up to 3 months	**11,704,592**	9,400,187
3 to 6 months	**741,337**	534,660
6 months to 1 year	**116,854**	234,844
1 to 2 years	**156,641**	110,291
Over 2 years	**115,693**	81,797
	12,835,117	10,361,779
Less: credit loss allowance	**(196,243)**	(200,760)
	12,638,874	10,161,019

Majority of the Group's trade receivables were denominated in RMB, US$ and India Rupees.

Trade receivables balances as of March 31, 2021 and December 31, 2020 mainly represented amounts due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's expected loss rates are mainly determined based on the corresponding historical credit loss rates which are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the expected changes in macroeconomic factors, such as Consumer Price Index ("**CPI**"), Gross Domestic Product ("**GDP**") and Business Climate Index ("**BCI**"), and accordingly adjusts the historical loss rates based on expected changes in all factors identified.

17 Prepayments and other receivables

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	**15,065,515**	7,363,158
Recoverable value-added tax and other taxes	**4,997,399**	5,649,195
Prepayments to suppliers	**810,840**	996,788
Deposits to suppliers	**409,253**	343,141
Receivables from market development fund	**377,060**	304,787
Prepaid fees for patent expenses and other prepaid expenses	**412,276**	436,447
Receivables from employees related to Employee Fund (Note 24)	**100,750**	100,750
Interest receivables	**502,153**	444,441
Loans to related parties	**11,264**	11,197
Receivables related to share options and RSUs granted to employees	**52,154**	300,772
Others	**256,569**	230,844
	22,995,233	16,181,520

18 Inventories

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Raw materials	**24,840,290**	15,684,698
Finished goods	**15,874,451**	17,909,963
Work in progress	**4,660,588**	4,135,024
Spare parts	**2,385,389**	1,967,593
Others	**2,856,764**	3,199,153
	50,617,482	42,896,431
Less: provision for impairment (Note (a))	**(1,080,134)**	(1,225,712)
	49,537,348	41,670,719

Note:

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provisions for impairment expenses of inventory amounted to RMB317,118,000 and RMB409,339,000 for the three months ended March 31, 2021 and 2020, respectively.

19 Leases

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
(i) The consolidated balance sheet includes the following amounts relating to leases:		
Right-of-use assets (Note(a))		
Land use rights	**4,786,309**	4,490,143
Servers and other equipment	**1,420,952**	—
Properties	**890,996**	865,533
Other assets	**8,205**	9,948
	7,106,462	5,365,624
Lease liabilities (Note(b))		
Current	**(892,984)**	(363,397)
Non-current	**(1,487,498)**	(516,482)
	(2,380,482)	(879,879)

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.

(b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

	Three months ended March 31, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
(ii) The consolidated income statement includes the following amounts relating to leases:		
Depreciation charge of right-of-use assets	**200,048**	116,633
Interest expense (included in finance costs)	**19,113**	11,621
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	**184,051**	186,034
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	**23,716**	—
	426,928	314,288

20 Other non-current assets

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Right-of-use assets (Note 19)	**7,106,462**	5,365,624
Investment properties	**1,206,070**	1,213,247
Others	**444,122**	396,980
	8,756,654	6,975,851

21 Share capital and treasury shares

(a) Share capital

Authorized:

As of January 1, 2021 and March 31, 2021, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US$0.0000025 per share.

Issued:

	Number of ordinary shares '000	**Nominal value of ordinary shares US$'000**	**Equivalent nominal value of ordinary shares RMB'000**	**Share premium RMB'000**
As of January 1, 2021	**25,187,308**	**62**	**409**	**64,655,891**
Exercise of share options and RSUs	**16,484**	**—**	**1**	**127,808**
Release of ordinary shares from Share Scheme Trusts (i)	**—**	**—**	**—**	**204,038**
As of March 31, 2021 (unaudited)	**25,203,792**	**62**	**410**	**64,987,737**
As of January 1, 2020	24,107,395	59	388	43,578,836
Exercise of share options and RSUs	52,618	—	1	424,982
Shares repurchased and cancelled	(110,317)	—	—	(894,058)
Release of ordinary shares from Share Scheme Trusts (i)	—	—	—	241,546
As of March 31, 2020 (unaudited)	24,049,696	59	389	43,351,306

Note:

(i) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "**Share Scheme Trusts**").

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2021	**4,289**	**36,224**
Shares repurchased	**19,308**	**421,660**
As of March 31, 2021 (unaudited)	**23,597**	**457,884**
As of January 1, 2020	130,240	1,052,822
Shares cancelled	(110,317)	(890,791)
As of March 31, 2020 (unaudited)	19,923	162,031

During the three months ended March 31, 2021, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
March 2021	**19,308**	**26.20**	**25.50**	**498,900,661**

22 Borrowings

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities (Note (a))	—	465,000
Secured borrowings (Note (c))	**1,814,081**	1,594,936
Unsecured borrowings (Note (d))	**7,678,499**	4,530,856
Convertible bonds (Note (e))	**4,120,124**	4,044,014
	13,612,704	10,634,806
Included in current liabilities		
Asset-backed securities (Note (a))	**2,841,529**	3,589,629
Fund raised through trusts (Note (b))	**547,500**	547,500
Secured borrowings (Note (c))	**599,295**	460,257
Unsecured borrowings (Note (d))	**3,403,857**	2,364,551
	7,392,181	6,961,937

Notes:

(a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("**ABS**"). As of March 31, 2021, the total ABS amounting to RMB2,841,529,000 (December 31, 2020: RMB4,054,629,000) bore interest at 2.59%–7.50% per annum.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of March 31, 2021, the fund raised through trust amounting to RMB547,500,000 (December 31, 2020: RMB547,500,000) bore interest 7.00% per annum. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature before December 2021.

(c) As of March 31, 2021, RMB2,303,488,000 (December 31, 2020: RMB2,055,193,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB7,394,399,000 (December 31, 2020: RMB8,343,327,000). The interest rate of these borrowings was 4.05%–4.90% per annum. Among of these borrowings, RMB200,000,000 should be repaid by the end of May 10, 2021, RMB36,873,000 should be repaid by the end of September 7, 2021, RMB200,000,000 should be repaid by the end of November 10, 2021, RMB15,661,000 should be repaid by the end of December 29, 2021, RMB36,873,000 should be repaid by the end of March 8, 2022, RMB867,728,000 should be repaid by the end of March 23, 2027, RMB523,527,000 should be repaid by the end of December 12, 2027 and RMB422,826,000 should be repaid by the end of July 6, 2035.

As of March 31, 2021, RMB109,888,000 (December 31, 2020: nil) represented the bills discounted with recourse, which should be repaid within one year.

(d) The Group issued US$600,000,000 (equivalent to approximately RMB3,942,780,000) senior notes to professional investors on April 29, 2020 with a term to maturity of ten years and at interest rate 3.38% per annum. The net proceeds of the notes issued, after deducting underwriting commissions and certain offering expenses, was approximately US$589,900,000 (equivalent to approximately RMB3,876,410,000).

The Group issued RMB1,000,000,000 bonds in Mainland China on April 2, 2020 with a term to maturity of one year and at coupon rates 2.78% per annum.

The Group had RMB190,000,000 (December 31, 2020: RMB190,000,000) unsecured borrowings with interest rate 5.10% per annum, RMB210,000,000 (December 31, 2020: RMB210,000,000) unsecured borrowings with interest rate 3.59% per annum, RMB88,539,000 (December 31, 2020: RMB88,539,000) unsecured borrowings with interest rate 4.31% per annum, RMB97,206,000 (December 31, 2020: RMB97,206,000) unsecured borrowings with interest rate 4.25% per annum, RMB133,212,000 (December 31, 2020: RMB133,212,000) unsecured borrowings with interest rate 3.85% per annum, RMB300,000,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.85% per annum, all of these borrowings should be repaid by the Group in 2021.

The Group had US$112,224,000 which was equivalent to approximately RMB737,591,000 (December 31, 2020: nil) unsecured borrowings with interest rate 1 month London Inter Bank Offered Rate ("**LIBOR**") +0.33% per annum, which should be repaid by the end of September 17, 2021; US$480,000,000 which was equivalent to RMB3,154,224,000 (December 31, 2020: nil) unsecured borrowings with interest rate 1 month LIBOR + 1.1% per annum, which should be repaid by the end of May 19, 2025.

The Group had RMB400,000,000 (December 31, 2020: RMB400,000,000) and RMB200,000,000 (December 31, 2020: RMB200,000,000) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in April and June of 2021, respectively. The Group had RMB500,000,000 (December 31, 2020: RMB500,000,000) of borrowings with interest rate 2.69% per annum secured by intra-group companies, which should be repaid by the end of November 20, 2023.

The Group had RMB206,000,000 (December 31, 2020: RMB206,000,000) unsecured borrowings with interest rate 4.66% per annum. Among of these borrowings, RMB10,000,000 should be repaid by the end of June 20, 2021, RMB11,000,000 should be repaid by the end of December 20, 2021, and RMB185,000,000 should be repaid by the end of November 26, 2029.

(e) On December 17, 2020, the Group completed the issuance of 7-Year US$855,000,000 (equivalent to approximately RMB5,578,790,000) zero coupon guaranteed convertible bonds due on December 17, 2027 (the "**Bonds**") to third party professional investors (the "**bondholders**"). The bondholders have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Group at a conversion price of HK$36.74 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by the Group upon the maturity of the Bonds on December 17, 2027, if not previously redeemed, converted or purchased and cancelled.

The liabilities and equity components of the Bonds are presented as follows:

	RMB'000
The face value of convertible bond issued on the issue date	5,578,790
Issue premium	292,886
Gross proceeds	5,871,676
Less: transaction cost	(70,654)
Net proceeds	5,801,022
Less: equity component	(1,764,799)
Liability component on initial recognition	4,036,223
Interest expense	7,791
Liability component as of December 31, 2020	4,044,014

The convertible bonds recognized in the balance sheet are calculated as follows:

	RMB'000
Liability component as of January 1, 2021	**4,044,014**
Interest accrued	**46,815**
Effect of foreign currency translation	**29,295**
Liability component as of March 31, 2021	**4,120,124**

For the three months ended March 31, 2021, the interest rate of the interest-bearing liabilities ranges from 0.59% to 7.5% per annum (Three months ended March 31, 2020: from 2.05% to 7.5%).

23 Deferred income tax

The amount of offsetting deferred income tax assets and liabilities is RMB68,140,000 as of March 31, 2021 (December 31, 2020: RMB66,396,000).

The gross movement on the deferred income tax assets is as follows:

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	**2,077,468**	1,406,376
(Debited)/credited to the consolidated income statement	**(291,917)**	174,270
At the end of the period	**1,785,551**	1,580,646

The gross movement on the deferred income tax liabilities is as follows:

	Three months ended March 31,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	**(366,952)**	(702,863)
(Debited)/credited to the consolidated income statement	**(80,154)**	63,941
At the end of the period	**(447,106)**	(638,922)

24 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the "Xiaomi Corporation 2011 Employee Stock Option Plan" ("**2011 Plan**") with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the "2012 Employee Stock Incentive Plan" ("**Pre-IPO ESOP**"). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares was 2,512,694,900 as of March 31, 2021 and December 31, 2020. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 1,568,094,311 shares.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on the shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

Pre-IPO ESOP

Share options granted to employees

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2021	**605,831,870**	**0.10**
Forfeited during the period	**(12,128,400)**	**0.16**
Transferred to Share Scheme Trusts	**(6,829,500)**	**0.10**
Exercised during the period	**(16,483,924)**	**0.18**
Outstanding as of March 31, 2021 (unaudited)	**570,390,046**	**0.10**
Exercisable as of March 31, 2021 (unaudited)	**289,406,326**	**0.24**
Outstanding as of January 1, 2020	855,801,907	0.12
Forfeited during the period	(6,323,800)	0.31
Transferred to Share Scheme Trusts	(15,449,600)	0.10
Exercised during the period	(52,617,880)	0.13
Outstanding as of March 31, 2020 (unaudited)	781,410,627	0.12
Exercisable as of March 31, 2020 (unaudited)	329,461,567	0.21

The weighted-average remaining contract life for outstanding share options was 5.15 years and 5.48 years as of March 31, 2021 and December 31, 2020, respectively.

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date.

The total expenses recognized in the consolidated income statements for Pre-IPO ESOP granted to the Group's employees are RMB115,716,000 and RMB346,994,000 for the three months ended March 31, 2021 and 2020, respectively.

Share based awards granted to Lei Jun

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("**Xiaomi Finance**") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. No share option was exercised for the three months ended March 31, 2021 and 2020, respectively.

Share Award Scheme

RSUs granted to employees

Movements in the number of RSUs granted to the Company's employees under Share Award Scheme and the respective weighted average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2021	**175,401,118**	**1.65**
Granted during the period	**17,781,745**	**4.37**
Forfeited during the period	**(7,016,561)**	**2.55**
Transferred to Share Scheme Trust	**(9,853,561)**	**1.68**
Outstanding as of March 31, 2021 (unaudited)	**176,312,741**	**1.89**
Outstanding as of January 1, 2020	90,106,933	1.20
Granted during the period	48,925,550	1.41
Forfeited during the period	(4,422,093)	1.23
Transferred to Share Scheme Trust	(1,003,395)	1.45
Outstanding as of March 31, 2020 (unaudited)	133,606,995	1.27
Vested as of March 31, 2020 (unaudited)	240,816	1.18

The weighted-average remaining contract life for outstanding RSUs was 9.40 years and 9.06 years as of March 31, 2021 and December 31, 2020, respectively.

The total expenses recognized in the consolidated income statements for Share Award Scheme RSU granted to the Group's employees are RMB190,633,000 and RMB138,389,000 for the three months ended March 31, 2021 and 2020, respectively.

Post-IPO Share Option Scheme

Share options granted to employees

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (HK$)
Outstanding as of January 1, 2021	**227,250,000**	**24.26**
Granted during the period	**6,250,000**	**33.90**
Forfeited during the period	**(110,000,000)**	**24.50**
Outstanding as of March 31, 2021 (unaudited)	**123,500,000**	**24.53**
Exercisable as of March 31, 2021 (unaudited)	**—**	**—**

The weighted-average remaining contract life for outstanding share options was 9.45 years and 9.68 years as of March 31, 2021 and December 31, 2020, respectively.

Fair value of share options

The Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Three months ended March 31, 2021
Fair value per share	**HK$33.90**
Exercise price	**HK$33.90**
Risk-free interest rate	**0.78%**
Dividend yield	**—**
Expected volatility	**43.03%**
Expected terms	**10 years**

The weighted-average fair value of granted share options was HK$15.07 per share for the three months ended March 31, 2021.

The total expenses reversed in the consolidated income statement for Post-IPO Share Option Scheme granted to the Group's employees are RMB33,386,000 for the three months ended March 31, 2021.

Employee fund

On August 31, 2014, the board of directors of the Company approved the establishment of the Xiaomi Development Fund ("**Employee Fund**") with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "**Lockup Period**"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of March 31, 2021.

The total expenses recognized in the consolidated income statements for the Employee Fund granted to the Group's employees are RMB392,714,000 and RMB84,538,000 for the three months ended March 31, 2021 and 2020, respectively.

25 Other non-current liabilities

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Liabilities to fund investors (Note (a))	**8,576,516**	9,364,533
Lease liabilities (Note 19)	**1,487,498**	516,482
Others	**117,820**	120,413
	10,181,834	10,001,428

Note:

(a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "**Hubei Fund**"). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

26 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of March 31, 2021 and December 31, 2020, the carrying amounts of trade payables were primarily denominated in RMB, US$ and India Rupees.

Trade payables and their aging analysis based on invoice date are as follows:

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Up to 3 months	**70,990,318**	68,909,758
3 to 6 months	**10,767,207**	2,312,665
6 months to 1 year	**300,796**	873,537
1 to 2 years	**220,656**	34,200
Over 2 years	**27,118**	68,696
	82,306,095	72,198,856

27 Other payables and accruals

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Amounts collected for third parties	**1,336,490**	2,642,533
Payroll and welfare payables	**1,371,314**	1,728,843
Deposits payable	**2,763,893**	1,956,126
Employee fund (Note 24)	**1,329,428**	936,714
Accrual expenses	**1,086,455**	1,106,137
Payables for construction cost	**1,517,165**	1,807,120
Payables for investments	**130,729**	116,250
Other taxes payables	**601,809**	547,339
Lease liabilities (Note 19)	**892,984**	363,397
Payables related to share options and RSUs granted to employees	**47,722**	204,385
Deposits from customers	**1,796,525**	1,327,919
Others	**1,789,786**	882,892
	14,664,300	13,619,655

28 Contingencies

The Group, in the ordinary course of its business, is involved in various claims, suits, and legal proceedings that arise from time to time. Although based on currently available information, the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or result of operations, litigations are inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period. As of March 31, 2021 and December 31, 2020, no material provisions were recorded.

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Property and equipment	**1,336,484**	1,558,000
Intangible assets	**33,476**	33,437
Investments	**1,316,722**	529,026
	2,686,682	2,120,463

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of March 31, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Not later than 1 year	**158,739**	620,398
Later than 1 year and not later than 5 years	**13,951**	41,660
Later than 5 years	**21**	14,924
	172,711	676,982

From January 1, 2019, in accordance with IFRS 16 Lease, the Group has recognized right-of-use assets for these leases, except for certain short-term leases and variable lease payments, see Note 19 for further information.

30 Events after the reporting period

The Company repurchased 173,381,600 Class B ordinary shares between April 1, 2021 to April 23, 2021, representing approximately 0.72% of the total issued share capital of the Company as on the respective transaction day. The total consideration was approximately HK$4,494,026,000.