# XIAOMI CORPORATION

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

# 2019 INTERIM REPORT

Stock Code: 1810

This interim report (in both English and Chinese versions) has been posted on the Company's website at www.mi.com and the Stock Exchange's website at www.hkexnews.hk. Shareholders who have chosen to rely on copies of the corporate communications (including but not limited to annual report and (where applicable) summary financial report, interim report and (where applicable) summary interim report, notice of meeting, listing document, circular and proxy form) posted on the aforesaid websites in lieu of any or all the printed copies thereof may request the printed copy of the interim report.

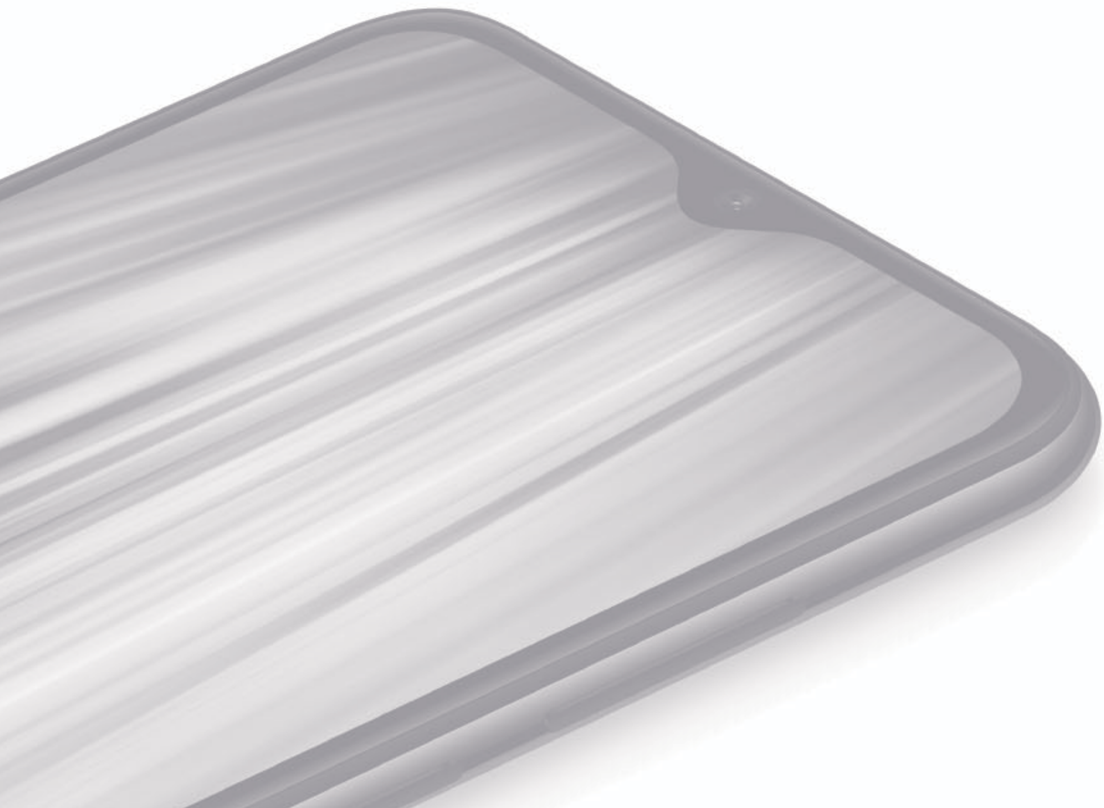
Shareholders who have chosen or are deemed to have consented to receive the corporate communications using electronic means and who have difficulty in receiving or gaining access to the interim report posted on the Company's website will promptly upon request be sent the interim report in printed form free of charge.

Shareholders may at any time choose to change their choice of means of receipt (in printed form or by electronic means through the Company's website) and language (in English only, in Chinese only or in both Chinese and English) of all future corporate communications from the Company by sending reasonable prior notice in writing by post to the Hong Kong Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or by email at xiaomi.ecom@computershare.com.hk.

# CONTENTS


64MP
AI SUPER CAMERA
64MP
AI SUPER CAMERA

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



# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Lei Jun (雷軍)*(Chairman of the Board)*
Lin Bin (林斌)

### Non-Executive Directors

Koh Tuck Lye (許達來)
Liu Qin (劉芹)

### Independent Non-Executive Directors

Chen Dongsheng (陳東升)
Lee Ka Kit (李家傑) [Note]
Wong Shun Tak (王舜德)

## Audit Committee

Wong Shun Tak (王舜德)*(Chairman)*
Chen Dongsheng (陳東升)
Koh Tuck Lye (許達來)

## Remuneration Committee

Chen Dongsheng (陳東升)*(Chairman)*
Lei Jun (雷軍)
Wong Shun Tak (王舜德)

## Nomination Committee

Lee Ka Kit (李家傑)[Note] *(Chairman)*
Lin Bin (林斌)
Wong Shun Tak (王舜德)

## Corporate Governance Committee

Chen Dongsheng (陳東升)*(Chairman)*
Lee Ka Kit (李家傑) [Note]
Wong Shun Tak (王舜德)

## Joint Company Secretaries

Lin Steve (林冠男)
So Ka Man (蘇嘉敏)

## Authorized Representatives

Lin Bin (林斌)
So Ka Man (蘇嘉敏)

## Auditor

PricewaterhouseCoopers
*Certified Public Accountants*

## Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

## Head Office and Principal Place of Business in Mainland China

Rainbow City Office Building
68 Qinghe Middle Street
Haidian District
Beijing
The People's Republic of China

Note: Resigned from the Board effective on August 23, 2019.

## Principal Place of Business in Hong Kong

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## Hong Kong Legal Advisor

Skadden, Arps, Slate, Meagher & Flom
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

## Compliance Advisor

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

## Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

## Principal Banker

China Merchants Bank, Beijing Branch, Shouti Sub-branch

## Stock Code

1810

## Company Website

www.mi.com

# KEY HIGHLIGHTS

| | Unaudited Three months ended | | | | |
|---|---|---|---|---|---|
| | **June 30, 2019** | June 30, 2018 | Year-over-year change | March 31, 2019 | Quarter-over-quarter change |
| | (RMB in millions, unless specified) | | | | |
| Revenue | **51,951.1** | 45,235.5 | 14.8% | 43,756.8 | 18.7% |
| Gross profit | **7,258.7** | 5,651.8 | 28.4% | 5,215.6 | 39.2% |
| Operating profit/(loss) | **2,336.1** | (7,592.0) | N/A | 3,614.1 | -35.4% |
| Profit before income tax | **2,434.3** | 14,908.4 | N/M[1] | 3,717.1 | -34.5% |
| Profit for the period | **1,955.6** | 14,632.6 | N/M[1] | 3,191.7 | -38.7% |
| Non-IFRS Measure: Adjusted net profit | **3,635.1** | 2,116.8 | 71.7% | 2,080.7 | 74.7% |

(1) Not meaningful for comparison due to a one-off gain of RMB22.5 billion from the fair value changes of convertible redeemable preferred shares and a one-off share-based compensation of RMB9.9 billion in the second quarter of 2018.

| | Unaudited Six months ended | | |
|---|---|---|---|
| | **June 30, 2019** | June 30, 2018 | Year-over-year change |
| | (RMB in millions, unless specified) | | |
| Revenue | **95,708.0** | 79,647.8 | 20.2% |
| Gross profit | **12,474.3** | 9,953.2 | 25.3% |
| Operating profit/(loss) | **5,950.3** | (4,227.5) | N/A |
| Profit before income tax | **6,151.5** | 8,219.4 | -25.2% |
| Profit for the period | **5,147.3** | 7,605.2 | –32.3% |
| Non-IFRS Measure: Adjusted net profit | **5,715.8** | 3,816.1 | 49.8% |

## Six months ended June 30, 2019

**Revenue**
95.7
billion

**Non-IFRS Measure: Adjusted net profit**
5.7
billion

**MIUI MAU**
278.7[1]
million

**Connected IoT devices**
195.9[2]
million units

## Year-on-year growth rate

**Revenue**
20.2%

**Non-IFRS Measure: Adjusted net profit**
49.8%

**IoT and lifestyle product revenue**
49.3%

**International revenue**
33.8%

Note:

(1) MIUI MAU in June 2019.

(2) Connected IoT devices as of June 30, 2019, excluding smartphones and laptops.

# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

I am pleased to present our interim report for the three and six months ended June 30, 2019 to the shareholders.

OVERALL FINANCIAL PERFORMANCE

SMARTPHONES

IoT AND LIFESTYLE PRODUCTS

INTERNET SERVICES

OVERSEAS MARKETS

STRATEGIC UPDATE

## 1. Overall financial performance

In the second quarter of 2019, we recorded RMB52.0 billion in revenue, representing an increase of 14.8% over the corresponding period of 2018. Gross profit margin increased to 14.0% from the 12.5% achieved in the corresponding period of 2018. Adjusted Net Profit increased by 71.7% to RMB3.6 billion. As of June 30, 2019, our total cash resources amounted to RMB51.1 billion.

The "Smartphone + AIoT" dual-engine strategy that we adopted at the beginning of the year has borne fruit. Our user base has continued to expand and the number of devices connected to our platform has continued to grow. In June 2019, monthly active users ("**MAU**") of MIUI reached 278.7 million, an increase of 34.7% over the corresponding period of 2018. The number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached approximately 196 million units as of June 30, 2019, representing a year-over-year growth of 69.5%. Meanwhile, our AI assistant "小愛同學" had 49.9 million MAU in June 2019, representing a year-over-year increase of 88.3%.

We have won a number of international awards in 2019 to date. It took us only 9 years to debut on the Fortune Global 500 list of 2019, becoming the youngest company on the list this year. Furthermore, we made it into the 2019 BrandZ Top 100 Most Valuable Global Brands ranking for the first time, ranking 74th with a brand value of US$19.8 billion. We have also been recognized as one of the 2019 Forbes China's 50 Most Innovative Companies.

## 2. Smartphones

Our smartphone segment recorded RMB32.0 billion in revenue in the second quarter of 2019, representing an increase of 5.0% over the corresponding period of 2018. Our smartphone sales volume in the second quarter of 2019 reached 32.1 million units. According to Canalys, we ranked 4th globally in terms of smartphone shipments during the second quarter of 2019 and our market share in terms of global smartphone shipments increased from 9.5% in the second quarter of 2018 to 9.7% in the second quarter of 2019.

Our multi-brand strategy continued to yield fruitful results. Both our Xiaomi brand, which focuses on pioneering advanced technologies, establishing itself in the mid- to high-end markets, and building online and offline new retail channels, and our Redmi brand, which is positioned to pursue the ultimate price-performance ratio and focus on online channels, and have performed well. After the launch of the new flagship model *K20* series under the Redmi brand, we have established a comprehensive *Redmi* smartphone product portfolio that covers a wide price range. In particular, the global sales volume of the *Redmi Note 7* series reached 20 million units as of the date of this interim report, achieving this milestone in only around 7 months since its launch on January 10, 2019. In addition, the global shipments of the *K20* series already recorded more than 1 million units within the first month of its launch. On July 2, 2019, we launched the *CC series* under the Xiaomi brand, which includes *Mi CC9, Mi CC9e*, and *Mi CC9 Meitu Edition*. The *CC* series is positioned as a fashionable series targeting younger customers. The *CC series* places an emphasis on being visually appealing in terms of both form and function, offering a stylish product design and enhanced photography experience. *Mi CC9 Meitu Edition* is a joint development with Meitu Inc. ("**Meitu**") which specifically targets the female user market. Leveraging our product development and supply chain management capabilities, as well as Meitu's image-related algorithms and its deep understanding of female users, the *Mi CC9 Meitu Edition* offers outstanding photographic experiences, and builds a solid foundation for our ongoing expansion into more diversified user markets.

Our products have been strongly recognized by the market as a result of the successful implementation of our multi-brand strategy. The average selling price ("**ASP**") of our smartphones has continued to increase, achieving year-over-year growths of 13.3% and 6.7% in mainland China and overseas markets, respectively. In the second quarter of 2019, the revenue generated by smartphones sold for RMB2,000 or more accounted for 32.3% of the total revenue of the smartphones segment.

Following the granting of 5G business licenses in mainland China, 5G technology has officially started to be implemented for commercial use. The commercialization of 5G technology could potentially lead to a new

# CHAIRMAN'S STATEMENT

smartphone replacement cycle and boost the overall demand of the domestic market. We established a research and development team back in 2016 for advanced research on 5G technology and are now well-prepared for the commercialization of 5G. The *Mi MIX 3 5G*, our first 5G model was already available in various European countries, and our second 5G smartphone model will also be launched in China in the second half of the year.

The gross profit margin of our smartphone segment increased from 3.3% in the first quarter of 2019 to 8.1% in the second quarter of 2019. During the early transition period from 4G to 5G technology, we will continue to invest in research and development of relevant technologies while remaining prudent with our cash flows and profitability. This is in order to strengthen our investment capabilities to capture the upcoming opportunities upon the widespread adoption of 5G technology.

## 3. IoT and lifestyle products

In the second quarter of 2019, revenue of the IoT and lifestyle products segment rose by 44.0% to RMB14.9 billion over the corresponding period of 2018. Our smart TV business continues to have a leading edge in both mainland China and overseas markets. In the second quarter of 2019, global shipments of our smart TVs reached 2.7 million units, representing a year-over-year growth of 41.1%. According to AVC, we ranked 1st in terms of TV shipments in mainland China for the six months ended June 30, 2019. We ranked 1st in terms of smart TV shipments in India for five consecutive quarters as of the second quarter of 2019. With our efforts in expanding our smart TVs globally, we achieved a top 5 position in terms of global TV shipments for the six months ended June 30, 2019, according to AVC.

We have positioned large home appliances as an important element of our AIoT strategy. We will focus on innovation and product design, offering intelligent user experiences and promoting the enhanced connectivity and compatibility of our smart home appliances. For the six months ended June 30, 2019, the shipments of our air conditioners amounted to approximately 1 million units. At the same time, we have also entered the smart kitchen appliances market.

In the second quarter of 2019, we continued to enrich our IoT product portfolio. The market share of our laptops has been steadily increasing following the launch of our new products. On May 28, 2019, the Redmi brand introduced its first 14" slim notebook and enjoyed widespread popularity. According to IDC Consulting (Beijing) Ltd. ("**IDC**"), the market share of our laptops in mainland China in terms of shipments increased from 5.5% in the second quarter of 2018 to 8.7% in the second quarter of 2019. Our *Mi Band* ranked 1st in the global wearables market in terms of shipments in the first quarter of 2019. Meanwhile, the *Mi Band* 4 recorded shipments of more than 1 million units within 8 days of its launch on June 14, 2019. In addition, we have also launched several new products, including our *AI Translator* "小愛老師", *Mi Smart Door Lock* and *Mi Smart Combo Wash and Dryer Pro*, which are supported by our AI assistant "小愛同學". These product launches illustrated our continuous pursuit of excellent product design and quality.

We have continued to improve the device-to-device interaction and enhance our users' smart home experience. For example, when a user opens the door through a *Mi Smart Door Lock*, our AI assistant "小愛同學" will welcome him/her home. At the same time, the *Mi Air Purifier, Mi Air Conditioner* and other smart devices could be switched on automatically. The *Mi Smart Combo Wash Dryer Pro* can be operated by the voice control function through our AI assistant "小愛同學" and can also support automatic detergent dispensing functionality.

## 4. Internet services

In the second quarter of 2019, our user base continued to expand. The MAU of MIUI rose by 34.7% year-over-year from 206.9 million in June 2018 to 278.7 million in June 2019. The MAU of MIUI in mainland China was 115.1 million in June 2019. The MAU of our smart TVs and *Mi Box* achieved 53.8% year-over-year growth, reaching 22.6 million in June 2019.

Revenue from our internet services segment grew by 15.7% year-over-year to RMB4.6 billion in the second quarter of 2019. Advertising revenue slightly decreased by 0.6% year-over-year to RMB2.5 billion due to a soft mainland China advertising market, particularly due to reduced advertising spending from other internet companies which contributed a meaningful portion of our advertising revenue. Over the course of the last few quarters, we have continued executing our strategy to diversify our advertising customer base. Through expanding into more vertical industries, such as finance and small and medium-sized enterprises, we are developing a more robust and healthy advertising business to capture more future growth. Revenue from gaming decreased by 4.1% year-over-year to RMB675.1 million. However, our gaming gross profit increased to RMB408.2 million in the second quarter of 2019 from RMB212.5 million in the corresponding quarter of 2018, representing an increase of 92.1%. Our gaming gross profit margin increased from 30.2% in the second quarter of 2018 to 60.5% in the second quarter of 2019 as we optimized our gaming distribution and had higher gaming revenue growth from content providers with high gross profit margin. Our other internet value-added services grew by 89.9% year-over-year to RMB1.4 billion, primarily due to the strong growth in revenue from our fintech business and Youpin e-commerce platform.

We have been focusing on enriching our internet services and content to strengthen our advertising business. Many of our internet services are leading on our smartphones, our *Mi* App Store, *Mi* Browser, *Mi* Security, and *Mi* Music ranked 1st and *Mi* Video ranked 2nd in their respective categories in mainland China in terms of MAU on our smartphones in June 2019. Furthermore, our news feed service ranked 1st in terms of MAU on our smartphones in mainland China, reaching 71.0 million MAU in June 2019, representing a year-over-year increase of 31.0%. Our search service also ranked 1st on our smartphones in mainland China in terms of search query volume in the second quarter of 2019. We developed various entry points for our search function, including browser, negative one screen, launcher search box, and our AI assistant "小愛同學". Leveraging our increasingly diversified services and multi-dimensional data, we are able to further improve our algorithm and enhance our users' experience. Services like news feed and search allow us to diversify our advertising customer base.

# CHAIRMAN'S STATEMENT

Internet service revenue outside of advertising and gaming from mainland China smartphones, including those generated from the Youpin e-commerce platform, fintech business, TV internet services and overseas internet services, increased by 108.8% over the corresponding quarter in 2018, accounting for 36.0% of the total internet service revenue in the second quarter of 2019.

For the six months ended June 30, 2019, the gross merchandise volume ("**GMV**") of our Youpin e-commerce platform grew to RMB3.8 billion, representing a year-over-year increase of 113.9%. In June 2019, more than 65% of Youpin's GMV came from non-Xiaomi smartphone users.

Revenue from our fintech business increased to RMB792.0 million in the second quarter of 2019, representing a year-over-year growth of 62.7%. Our current fintech business focuses on consumer loans and supply chain financing. With our sophisticated risk management model and technology capability, and extensive user base and supply chain partners, we had a solid business foundation and potential to grow. In the meanwhile, we are also actively exploring other fintech business opportunities.

Our TV internet services is also fast growing and increasingly diversified. The TV internet services revenue is mainly generated from advertising, paid subscription and app distribution. In June 2019, we had over 3 million paid subscribers, representing a year-over-year increase of 83.1%. We offer a variety of membership services, including video membership, sports memberships, and children membership. Our subscription services have expanded to other non-Xiaomi TVs to serve a wider user base.

With the overseas expansion of our smartphone business, our overseas internet service revenue also increased significantly. We continued to build and strengthen our service offerings in overseas markets. In June 2019, our browser ranked 1st among all browsers in India in terms of MAU on our smartphones. In the second quarter of 2019, the average revenue per user ("**ARPU**") in overseas markets recorded a year-over-year increase of 133.0%.

## 5. Overseas markets

We have maintained a strong growth in the overseas markets in the second quarter of 2019. Our revenue from the overseas markets grew 33.1% year-over-year to RMB21.9 billion in the second quarter of 2019. We will continue to build and expand our new retail channels in the overseas markets. As of June 30, 2019, there were a total of 520 *Mi Home* stores overseas, representing a 92.6% year-over-year growth, of which 79 stores were located in India. Furthermore, in India, we had more than 1,790 Mi Stores that cater to tier two and rural areas of India as of June 30, 2019.

According to Canalys, in the second quarter of 2019, we ranked among the top five in over 40 countries and regions in terms of smartphone shipments. According to IDC, our smartphones have ranked 1st in India in terms of shipments for eight consecutive quarters. In addition, according to Canalys, in the second quarter of 2019, we ranked 4th in terms of smartphone shipments for Western Europe, representing a year-over-year increase of 53.2%. We ranked 2nd in open market channels in Spain in terms of smartphone shipments in the second quarter of 2019. We have been developing operator channels in Europe. Our flagship smartphones, such as *Mi MIX 3* and *Mi 9* series, have been launched in operator channels in the United Kingdom, France, Spain, Italy and Switzerland.

## 6. Strategic update

**AIoT**

In the second quarter of 2019, we continued the implementation of our "Smartphone + AIoT" dual-engine strategy and our AIoT platform continued to maintain its leading position. As of June 30, 2019, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached approximately 196 million units, representing a year-over-year increase of 69.5%. The number of users who have five or more devices connected to Xiaomi's IoT platform (excluding smartphones and laptops) increased to approximate 3 million, representing a year-over-year increase of 78.7%. In the six months ended June 30, 2019, the shipments of our AI speakers exceeded 4 million units. In June 2019, our AI assistant "小愛同學" had 49.9 million MAU, making it one of the most used AI voice interactive platforms in China. In June 2019, 45% of our AI speaker MAU used voice control to interact with their IoT devices at least once that month.

We continued to open up our AIoT platform to build a more vibrant AIoT ecosystem. Our *Mi Home* app had 30.4 million MAU in the second quarter of 2019 and more than half of the MAU in mainland China were from non-Xiaomi smartphone users. We will continue to invest in the development of our open AIoT platform to attract more third parties and users to join this AIoT platform.

The Group's AIoT Strategy committee will further enhance the development of our AIoT technology, by building a comprehensive AIoT ecosystem, strengthening our research and development, and realizing synergies across business units to improve our smart devices' connectivity and user experiences. For example, we continue to develop technologies for files to be seamlessly transferred between our smartphones and laptops, as well as for intelligent projection to be enabled between our smartphones and smart TVs.

# CHAIRMAN'S STATEMENT

**Investments**

As of June 30, 2019, we invested in a total of over 270 companies with an aggregated book value of RMB28.7 billion, representing a year-over-year growth of 20.8%. We also expanded our investment into supply chain companies to strengthen our partnership with key component suppliers and to enhance our abilities in advanced technology sourcing and manufacturing. As of the date of this interim report, we invested in 12 supply chain companies. Among those, three of the investee companies were listed on the STAR Market in China. We believe our investments not only allowed us to establish close partnerships with the investee companies but also provided us with recurring investment income. In the second quarter of 2019, we generated net gains on disposal of investments (after tax) of RMB551.8 million.

**Lei Jun**
*Chairman*

Hong Kong
August 20, 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

## Second Quarter of 2019 Compared to Second Quarter of 2018

The following table sets forth the comparative figures for the second quarter of 2019 and the second quarter of 2018:

| | Unaudited Three months ended June 30, 2019 | Unaudited Three months ended June 30, 2018 |
|---|---|---|
| | (RMB in millions) | |
| **Revenue** | 51,951.1 | 45,235.5 |
| Cost of sales | (44,692.4) | (39,583.7) |
| **Gross profit** | 7,258.7 | 5,651.8 |
| Selling and marketing expenses | (2,295.3) | (2,075.7) |
| Administrative expenses | (723.5) | (10,456.9) |
| Research and development expenses | (1,556.1) | (1,363.6) |
| Fair value changes on investments measured at fair value through profit or loss | (670.7) | 526.9 |
| Share of losses of investments accounted for using the equity method | (12.1) | (128.5) |
| Other income | 406.4 | 207.3 |
| Other (losses)/gains, net | (71.3) | 46.7 |
| **Operating profit/(loss)** | 2,336.1 | (7,592.0) |
| Finance income/(expense), net | 98.2 | (32.3) |
| Fair value changes of convertible redeemable preferred shares | — | 22,532.7 |
| **Profit before income tax** | 2,434.3 | 14,908.4 |
| Income tax expenses | (478.7) | (275.8) |
| **Profit for the period** | 1,955.6 | 14,632.6 |
| **Non-IFRS Measure: Adjusted net profit** | 3,635.1 | 2,116.8 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Revenue

Revenue increased by 14.8% to RMB52.0 billion in the second quarter of 2019 on a year-over-year basis. The following table sets forth our revenue by line of business in the second quarter of 2019 and the second quarter of 2018.

| | Unaudited Three months ended | | | |
|---|---|---|---|---|
| | June 30, 2019 | | June 30, 2018 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | 32,021.0 | 61.6% | 30,501.1 | 67.4% |
| IoT and lifestyle products | 14,944.7 | 28.8% | 10,378.8 | 22.9% |
| Internet services | 4,580.2 | 8.8% | 3,958.2 | 8.8% |
| Others | 405.2 | 0.8% | 397.4 | 0.9% |
| Total revenue | 51,951.1 | 100.0% | 45,235.5 | 100.0% |

### Smartphones

Revenue from our smartphones segment increased by 5.0% from RMB30.5 billion in the second quarter of 2018 to RMB32.0 billion in the second quarter of 2019, driven by the increase in ASP of our smartphones. We sold approximately 32.1 million smartphone units in the second quarter of 2019, compared to approximately 32.0 million units in the second quarter of 2018. The ASP of our smartphones was RMB998.7 per unit in the second quarter of 2019, compared with RMB952.3 per unit in the second quarter of 2018. The increase in ASP was primarily due to the continuous optimization of our product portfolio.

### IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 44.0% from RMB10.4 billion in the second quarter of 2018 to RMB14.9 billion in the second quarter of 2019, primarily due to the strong growth in demand of our smart TVs, air conditioners, and other IoT products such as *Mi Band*, *Mi Electric Scooter* and *Mi Water Purifier*. Revenue from smart TVs and laptops, increased by 30.6% from RMB4.2 billion in the second quarter of 2018 to RMB5.5 billion in the second quarter of 2019.

### Internet services

Revenue from our internet services segment increased by 15.7% from RMB4.0 billion in the second quarter of 2018 to RMB4.6 billion in the second quarter of 2019, primarily due to the growth in our other internet value-added services. Our MIUI MAU increased by 34.7% from 206.9 million in June 2018 to 278.7 million in June 2019.

### Others

Other revenue increased by 2.0% from RMB397.4 million in the second quarter of 2018 to RMB405.2 million in the second quarter of 2019, primarily due to the increase in revenue from out-of-warranty service as a result of greater hardware sales as well as increase in revenue from sale of materials.

## Cost of Sales

Our cost of sales increased by 12.9% from RMB39.6 billion in the second quarter of 2018 to RMB44.7 billion in the second quarter of 2019.

| | Unaudited Three months ended | | | |
|---|---|---|---|---|
| | June 30, 2019 | | June 30, 2018 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | 29,431.5 | 56.7% | 28,458.9 | 62.9% |
| IoT and lifestyle products | 13,272.8 | 25.5% | 9,399.5 | 20.8% |
| Internet services | 1,574.8 | 3.0% | 1,473.0 | 3.3% |
| Others | 413.3 | 0.8% | 252.3 | 0.5% |
| Total cost of sales | 44,692.4 | 86.0% | 39,583.7 | 87.5% |

# MANAGEMENT DISCUSSION AND ANALYSIS

### Smartphones

Cost of sales related to our smartphones segment increased by 3.4% from RMB28.5 billion in the second quarter of 2018 to RMB29.4 billion in the second quarter of 2019, 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 41.2% from RMB9.4 billion in the second quarter of 2018 to RMB13.3 billion in the second quarter of 2019, primarily due to the increased sales of our smart TVs, air conditioners, and other IoT products.

### Internet services

Cost of sales related to our internet services segment increased by 6.9% from RMB1.5 billion in the second quarter of 2018 to RMB1.6 billion in the second quarter of 2019, primarily due to the increased spending on infrastructure service as a result of higher user traffic and engagement.

### Others

Cost of sales related to our others segment increased by 63.8% from RMB252.3 million in the second quarter of 2018 to RMB413.3 million in the second quarter of 2019, primarily due to the increased costs of providing out-of-warranty services and the increased costs from sale of materials.

## Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 28.4% from RMB5.7 billion in the second quarter of 2018 to RMB7.3 billion in the second quarter of 2019. The gross profit margin from our smartphones segment increased from 6.7% in the second quarter of 2018 to 8.1% in the second quarter of 2019, mainly due to the popularity of our newly launched smartphone models and more prudent operations during the early transition period from 4G to 5G technology.

The gross profit margin from our IoT and lifestyle products segment increased from 9.4% in the second quarter of 2018 to 11.2% in the second quarter of 2019, mainly due to the increased gross profit margin from our smart TVs business. The gross profit margin from our internet services segment increased from 62.8% in the second quarter of 2018 to 65.6% in the second quarter of 2019, mainly due to the increased gross profit margin from our gaming and other internet value-added services.

As a result of the foregoing, our gross profit margin increased from 12.5% in the second quarter of 2018 to 14.0% in the second quarter of 2019.

## Selling and Marketing Expenses

Our selling and marketing expenses increased by 10.6% from RMB2.1 billion in the second quarter of 2018 to RMB2.3 billion in the second quarter of 2019, primarily due to the increase in packaging and transportation expenses, supporting the growth of our hardware business in both domestic and overseas markets, partially offset by the decrease in advertising expenses. Promotion and advertising expenses decreased by 13.4% from RMB786.5 million in the second quarter of 2018 to RMB681.0 million in the second quarter of 2019.

## Administrative Expenses

Our administrative expenses decreased by 93.1% from RMB10,456.9 million in the second quarter of 2018 to RMB723.5 million in the second quarter of 2019, primarily due to the one-off share-based compensation in the second quarter of 2018. Excluding the one-off share-based compensation, our administrative expenses increased by 37.2% from RMB527.2 million in the second quarter of 2018 to RMB723.5 million in the second quarter of 2019, primarily due to the increase in compensation for 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 14.1% from RMB1.4 billion in the second quarter of 2018 to RMB1.6 billion in the second quarter of 2019, primarily due to the expansion of our research projects and the increase in salaries and bonus relating to our research and development personnel.

## 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 changed from a gain of RMB526.9 million in the second quarter of 2018 to a loss of RMB670.7 million in the second quarter of 2019, primarily due to fair value losses of equity and preferred share investment in the second quarter of 2019.

## Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method changed from net losses of RMB128.5 million in the second quarter of 2018 to net losses of RMB12.1 million in the second quarter of 2019, primarily due to the decrease in share of loss of iQIYI, Inc (NASDAQ ticker: IQ) and increase in share of gain of Sichuan XW Bank Corp., Ltd..

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Income

Our other income increased by 96.0% from RMB207.3 million in the second quarter of 2018 to RMB406.4 million in the second quarter of 2019, due to the increase of investment income from short-term investments measured at fair value through profit or loss.

## Other (Losses)/Gains, Net

Our other net (losses)/gains changed from net gains of RMB46.7 million in the second quarter of 2018 to net losses of RMB71.3 million in the second quarter of 2019, primarily due to the recognition of foreign exchange losses for the second quarter of 2019, compared to foreign exchange gains for the second quarter of 2018.

## Finance Income/(Expense), Net

We had a net finance expense of RMB32.3 million in the second quarter of 2018 and a net finance income of RMB98.2 million in the second quarter of 2019, primarily due to the increase in our interest income. Our interest income increased primarily due to more bank deposits which generated higher interest received.

## 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 in the second quarter of 2019, compared to a gain of RMB22.5 billion in the second quarter of 2018. After the completion of the Global Offering, all of our convertible redeemable preferred shares were automatically converted to our Class B ordinary shares ("**Class B Shares**") and thus in the fourth quarter of 2018 and forward, we will not incur fair value changes of convertible redeemable preferred shares.

## Income Tax Expenses

Our income tax expenses increased from RMB275.8 million in the second quarter of 2018 to RMB478.7 million in the second quarter of 2019, primarily due to the improvement of our profitability from operating activities.

## Profit for the Period

As a result of the foregoing, we had a profit of RMB14.6 billion and a profit of RMB2.0 billion in the second quarter of 2018 and the second quarter of 2019, respectively.

## Second Quarter of 2019 Compared to First Quarter of 2019

The following table sets forth the comparative figures for the second quarter of 2019 and the first quarter of 2019:

| | Unaudited<br>Three months ended | |
|---|---|---|
| | June 30, 2019 | March 31, 2019 |
| | (RMB in millions) | |
| **Revenue** | 51,951.1 | 43,756.8 |
| Cost of sales | (44,692.4) | (38,541.2) |
| **Gross profit** | 7,258.7 | 5,215.6 |
| Selling and marketing expenses | (2,295.3) | (1,844.7) |
| Administrative expenses | (723.5) | (632.0) |
| Research and development expenses | (1,556.1) | (1,650.6) |
| Fair value changes on investments measured at fair value through profit or loss | (670.7) | 2,632.7 |
| Share of losses of investments accounted for using the equity method | (12.1) | (145.4) |
| Other income | 406.4 | 60.2 |
| Other losses, net | (71.3) | (21.7) |
| **Operating profit** | 2,336.1 | 3,614.1 |
| Finance income, net | 98.2 | 103.0 |
| **Profit before income tax** | 2,434.3 | 3,717.1 |
| Income tax expenses | (478.7) | (525.4) |
| **Profit for the period** | 1,955.6 | 3,191.7 |
| **Non-IFRS Measure: Adjusted net profit** | 3,635.1 | 2,080.7 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## Revenue

Revenue increased by 18.7% to RMB52.0 billion in the second quarter of 2019 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the second quarter of 2019 and the first quarter of 2019.

| | Unaudited Three months ended | | | |
|---|---|---|---|---|
| | June 30, 2019 | | March 31, 2019 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | **32,021.0** | **61.6%** | 27,008.7 | 61.7% |
| IoT and lifestyle products | **14,944.7** | **28.8%** | 12,043.0 | 27.5% |
| Internet services | **4,580.2** | **8.8%** | 4,257.3 | 9.7% |
| Others | **405.2** | **0.8%** | 447.8 | 1.1% |
| Total revenue | **51,951.1** | **100.0%** | 43,756.8 | 100.0% |

### Smartphones

Revenue from our smartphones segment increased by 18.6% from RMB27.0 billion in the first quarter of 2019 to RMB32.0 billion in the second quarter of 2019, driven by growth in both sales volume and ASP. We sold approximately 32.1 million smartphone units in the second quarter of 2019, compared to approximately 27.9 million units in the first quarter of 2019. The ASP of our smartphones was RMB998.7 per unit in the second quarter of 2019, compared with RMB968.3 per unit in the first quarter of 2019. The increase in ASP was primarily due to the continued optimization of our product portfolio.

### IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 24.1% from RMB12.0 billion in the first quarter of 2019 to RMB14.9 billion in the second quarter of 2019, primarily due to the strong growth in demand of our smart TVs, laptops, air conditioners, and other IoT products such as *Mi Band*, *Mi Electric Scooter* and *Mi Water Purifier*. Revenue from smart TVs and laptops, increased by 8.1% from RMB5.0 billion in the first quarter of 2019 to RMB5.5 billion in the second quarter of 2019.

### Internet services

Revenue from our internet services segment increased by 7.6% from RMB4.3 billion in the first quarter of 2019 to RMB4.6 billion in the second quarter of 2019, primarily due to the growth in our advertising business and other internet value-added services. Our MIUI MAU increased by 6.8% from 260.9 million in March 2019 to 278.7 million in June 2019.

### Others

Other revenue decreased by 9.5% from RMB447.8 million in the first quarter of 2019 to RMB405.2 million in the second quarter of 2019, primarily due to the decrease in revenue from sale of materials.

## Cost of Sales

Our cost of sales increased by 16.0% from RMB38.5 billion in the first quarter of 2019 to RMB44.7 billion in the second quarter of 2019.

| | Unaudited | | | |
|---|---|---|---|---|
| | Three months ended | | | |
| | June 30, 2019 | | March 31, 2019 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| Smartphones | **29,431.5** | **56.7%** | 26,123.7 | 59.7% |
| IoT and lifestyle products | **13,272.8** | **25.5%** | 10,594.3 | 24.2% |
| Internet services | **1,574.8** | **3.0%** | 1,387.7 | 3.2% |
| Others | **413.3** | **0.8%** | 435.5 | 1.0% |
| Total cost of sales | **44,692.4** | **86.0%** | 38,541.2 | 88.1% |

# MANAGEMENT DISCUSSION AND ANALYSIS

### Smartphones

Cost of sales related to our smartphones segment increased by 12.7% from RMB26.1 billion in the first quarter of 2019 to RMB29.4 billion in the second quarter of 2019, 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 25.3% from RMB10.6 billion in the first quarter of 2019 to RMB13.3 billion in the second quarter of 2019, primarily due to the increased sales of our smart TVs, laptops, air conditioners, and other IoT products.

### Internet services

Cost of sales related to our internet services segment increased by 13.5% from RMB1.4 billion in the first quarter of 2019 to RMB1.6 billion in the second quarter of 2019, primarily due to the increase in the cost of sales of other internet value added services.

### Others

Cost of sales related to our others segment decreased by 5.1% from RMB435.5 million in the first quarter of 2019 to RMB413.3 million in the second quarter of 2019, primarily due to the decreased sales from sale of materials.

## Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 39.2% from RMB5.2 billion in the first quarter of 2019 to RMB7.3 billion in the second quarter of 2019. The gross profit margin from our smartphones segment increased from 3.3% in the first quarter of 2019 to 8.1% in the second quarter of 2019, mainly due to the popularity of our newly launched smartphone models and prudent operations during the early transition period from 4G to 5G technology.

The gross profit margin from our IoT and lifestyle products segment decreased from 12.0% in the first quarter of 2019 to 11.2% in the second quarter of 2019. The gross profit margin from our internet services segment decreased from 67.4% in the first quarter of 2019 to 65.6% in the second quarter of 2019, mainly due to the decreased gross profit margin from our gaming business.

As a result of the foregoing, our gross profit margin increased from 11.9% in the first quarter of 2019 to 14.0% in the second quarter of 2019.

## Selling and Marketing Expenses

Our selling and marketing expenses increased by 24.4% from RMB1.8 billion in the first quarter of 2019 to RMB2.3 billion in the second quarter of 2019, primarily due to the increase in advertising expenses and packaging and transportation expenses. The advertising expenses increased primarily due to our enhanced marketing efforts for the online shopping festivals and the launch of our smartphone models in overseas markets. The packaging and transportation expenses increased due to higher smartphone shipments in overseas markets in the second quarter of 2019.

## Administrative Expenses

Our administrative expenses increased by 14.5% from RMB632.0 million in the first quarter of 2019 to RMB723.5 million in the second quarter of 2019, primarily due to the increased professional services fees for the expansion of our business.

## Research and Development Expenses

Our research and development expenses decreased by 5.7% from RMB1.7 billion in the first quarter of 2019 to RMB1.6 billion in the second quarter of 2019.

## 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 changed from a gain of RMB2.6 billion in the first quarter of 2019 to a loss of RMB0.7 billion in the second quarter of 2019, primarily due to fair value losses of the equity and preferred share investments in the second quarter of 2019.

## Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method decreased by 91.7% from net losses of RMB145.4 million in the first quarter of 2019 to net losses of RMB12.1 million in the second quarter of 2019, primarily due to the decrease in share of loss of iQIYI, Inc (NASDAQ ticker: IQ).

## Other Income

Our other income increased by 574.5% from RMB60.2 million in the first quarter of 2019 to RMB406.4 million in the second quarter of 2019, primarily due to the dividend income received from our investee companies and the increase of investment income from short-term investments measured at fair value through profit or loss.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Losses, Net

Our other net losses increased by 228.7% from RMB21.7 million in the first quarter of 2019 to RMB71.3 million in the second quarter of 2019, primarily due to the recognition of foreign exchange losses in the second quarter of 2019, compared to foreign exchange gains in the first quarter of 2019.

## Finance Income, Net

Our net finance income decreased by 4.6% from RMB103.0 million in the first quarter of 2019 to RMB98.2 million in the second quarter of 2019.

## Income Tax Expenses

Our income tax expenses decreased from RMB525.4 million in the first quarter of 2019 to RMB478.7 million in the second quarter of 2019, primarily due to the decrease in deferred tax liabilities.

## Profit for the Period

As a result of the foregoing, we had a profit of RMB3.2 billion and a profit of RMB2.0 billion in the first and second quarter of 2019, respectively.

## Non-IFRS Measure: Adjusted Net Profit

To supplement our consolidated results which are prepared and presented in accordance with International Financial Reporting Standards (the "**IFRS**"), we utilize Adjusted Net Profit as an additional financial measure. We define non-IFRS adjusted net profit ("**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, and (iv) amortization of intangible assets resulting from acquisitions, (v) changes of value of financial liabilities to fund investors, and (vi) income tax effects.

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 operation, 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 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 reconciliations of the Group's Non-IFRS measures for the second quarter of 2019, the first quarter of 2019, the second quarter of 2018, and the first half of 2019 and 2018 to the nearest measures prepared in accordance with IFRS:

| | Unaudited Three Months Ended June 30, 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 thousand, unless specified) | | | | | | | |
| Profit for the period | 1,955,558 | — | 387,545 | 1,421,586 | 79 | 53,700 | (183,355) | 3,635,113 |
| Net margin | 3.8% | | | | | | | 7.0% |

| | Unaudited Three Months Ended March 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 thousand, unless specified) | | | | | | | |
| Profit for the period | 3,191,744 | — | 630,752 | (1,800,683) | 1,467 | — | 57,391 | 2,080,671 |
| Net margin | 7.3% | | | | | | | 4.8% |

| | Unaudited Three Months Ended June 30, 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 thousand, unless specified) | | | | | | | |
| Profit for the period | 14,632,647 | (22,532,721) | 10,527,322 | (432,177) | 695 | — | (78,942) | 2,116,824 |
| Net margin | 32.3% | | | | | | | 4.7% |

# MANAGEMENT DISCUSSION AND ANALYSIS

| | Unaudited Six Months Ended June 30, 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 thousand, unless specified) | | | | | | | |
| Profit for the period | 5,147,302 | — | 1,018,297 | (379,097) | 1,546 | 53,700 | (125,964) | 5,715,784 |
| Net margin | 5.4% | | | | | | | 6.0% |

| | Unaudited Six Months Ended June 30, 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 thousand, unless specified) | | | | | | | |
| Profit for the period | 7,605,236 | (12,461,345) | 11,015,559 | (2,257,276) | 1,388 | — | (87,437) | 3,816,125 |
| Net margin | 9.5% | | | | | | | 4.8% |

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 in the current period, 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.

## Liquidity and Financial Resources

In addition to the funds raised through our Global Offering in July 2018, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB34.9 billion and RMB26.5 billion as of June 30, 2019 and March 31, 2019, respectively.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and cash equivalents, restricted cash, short-term bank deposits and short-term investments measured at fair value through profit or loss. As of June 30, 2019, the aggregate amount of cash resources of the Group is RMB51.1 billion, increased by 35.9% from RMB37.6 billion as of March 31, 2019.

## Consolidated Statement of Cash Flows

| | Unaudited Three months ended | |
|---|---|---|
| | **June 30, 2019** | March 31, 2019 |
| | (in thousands of RMB) | |
| Net cash generated from/(used in) operating activities[1] | **11,033,207** | (117,783) |
| Net cash used in investing activities | **(5,658,342)** | (2,372,212) |
| Net cash generated from/(used in) financing activities[1] | **2,377,695** | (485,696) |
| Net increase/(decrease) in cash and cash equivalents | **7,752,560** | (2,975,691) |
| Cash and cash equivalents at beginning of period | **26,473,131** | 30,230,147 |
| Effects of exchange rate changes on cash and cash equivalents | **695,337** | (781,325) |
| Cash and cash equivalents at end of period | **34,921,028** | 26,473,131 |

Note:

(1) Excluding (1) the increase in loan and interest receivables and impairment provision for loan receivables mainly resulting from the internet finance business; (2) the increase in trade payables resulting from the finance factoring business; and (3) the decrease in restricted cash resulting from the internet finance business, the net cash generated from operating activities was RMB13.7 billion in the second quarter of 2019 and the net cash used in operating activities was RMB1.5 billion in the first quarter of 2019, respectively; excluding the change of borrowings for the internet finance business, the net cash used in financing activities was RMB0.8 billion in the second quarter of 2019 and RMB0.1 billion in the first quarter of 2019, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this interim report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gearing Ratio

Our gearing ratio was -32.6% and -46.0%, which represented a net cash position, as of March 31, 2019 and June 30, 2019, respectively. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings less our cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is calculated as total equity plus net debt.

## Net Cash Generated From Operating Activities

Net cash generated from our operating activities represents the cash generated from our operations minus the income tax paid. Cash generated from our operations primarily comprises our profit before income tax adjusted by non-cash items and changes in working capital.

In the second quarter of 2019, net cash generated from our operating activities amounted to RMB11.0 billion, representing cash generated from operations of RMB11.9 billion minus income tax paid of RMB0.9 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB2.4 billion, adjusted by an increase in trade payables of RMB12.7 billion, partially offset by an increase in inventories of RMB2.1 billion and an increase in loan and interest receivables of RMB2.8 billion.

## Net Cash Used In Investing Activities

In the second quarter of 2019, our net cash used in investing activities was RMB5.7 billion, which was primarily attributed to the net cash used in the net changes of short-term investments measured at fair value through profit or loss of RMB4.3 billion and net cash used in the net changes of short-term bank deposits of RMB1.3 billion.

## Net Cash Generated From Financing Activities

In the second quarter of 2019, our net cash generated from financing activities was RMB2.4 billion, which was primarily attributable to the net cash generated from the net changes of borrowings of RMB3.1 billion, partially offset by the payments of shares repurchase of RMB0.8 billion.

## Borrowings

As of March 31, 2019 and June 30, 2019, we had total borrowings of RMB10.6 billion and RMB13.8 billion, respectively.

## Capital Expenditure and Placement of Long-Term Investments Measured at Fair Value Through Profit or Loss

| | Unaudited Three months ended | |
|---|---|---|
| | June 30, 2019 | March 31, 2019 |
| | (in thousands of RMB) | |
| Capital expenditures | 524,725 | 960,055 |
| Placement of long-term investments[1] | 1,281,536 | 1,117,963 |
| Total | 1,806,261 | 2,078,018 |

Note:

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

Our capital expenditure 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. As of June 30, 2019, our book value of office and other real estate amounted RMB9.6 billion. Placement of long-term investments included our investment in TCL Industrial Holdings (Guangdong) Co., Ltd. to jointly develop smart hardware and core components in order to advance our AIoT strategy.

## Future Plans for Material Investments and Capital Assets

As of June 30, 2019, we did not have other plans for material investments and capital assets.

## Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

In the second quarter of 2019, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Employee and Remuneration Policy

As of June 30, 2019, we had 16,911 full-time employees, 15,668 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key global markets. As of June 30, 2019, our research and development personnel, totaling 7,779 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 June 30, 2019, 5,375 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, in the second quarter of 2019 were RMB1,779.2 million, representing a decrease of 12.8% from the first quarter of 2019 of RMB2,039.4 million.

## Foreign Exchange Risk

The transactions of our Company are denominated and settled in our functional currency, the United States dollar. Our Group's subsidiaries primarily operate in the People's Republic of China (the "**PRC**") and other regions such as India, and are exposed to foreign exchange risk arising from various currencies exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners.

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

## Pledge of Assets

As of June 30, 2019, we pledged a restricted cash of RMB649.7 million, compared with as of March 31, 2019, which was RMB1,284.1 million.

## Contingent Liabilities

As of June 30, 2019 and March 31, 2019, we did not have any material contingent liabilities.

# OTHER INFORMATION

## Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations

As of June 30, 2019, the interests and short positions of our Directors or chief executives 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), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### 1. Interest in Shares

| Name of Director or chief executive | Nature of interest[6] | 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) | ARK Trust (Hong Kong) Limited | 4,291,600,457 Class A Shares | 64.15% |
| | | | 2,367,534,930 Class B Shares | 13.65% |
| | Interest in controlled corporations(L) | Smart Mobile Holdings Limited | 4,291,600,457 Class A Shares | 64.15% |
| | | | 2,227,472,013 Class B Shares | 12.84% |
| | Interest in controlled corporations(L) | Smart Player Limited | 59,221,630 Class B Shares | 0.34% |
| | Interest in controlled corporations(L) | Team Guide Limited | 80,841,287 Class B Shares | 0.47% |
| Lin Bin[3] | Trustee, beneficiary and settlor of a trust(L) | Bin Lin Trust | 2,397,995,563 Class A Shares | 35.85% |
| | Beneficial owner(L) | | 91,233,610 Class B Shares | 0.53% |
| | Interest in controlled corporations(L) | Apex Start LLC | 302,004,437 Class B Shares | 1.74% |
| Koh Tuck Lye[4] | Beneficiary, founder and settlor of a Trust(L) | ARK Trust (Hong Kong) Limited | 13,343,421 Class B Shares | 0.08% |
| | Interest in controlled corporations(L) | Shunwei Ventures Limited | 305,235,945 Class B Shares | 1.76% |
| | Interest in controlled corporations(L) | Shunwei Capital Partners GP, L.P. | 7,994,728 Class B Shares | 0.05% |
| | Interest in controlled corporations(L) | Bright Inspiration Holdings Limited | 5,000,000 Class B Shares | 0.03% |
| | Interest in controlled corporation(L) | Gifted Jade Limited | 3,377,000 Class B Shares | 0.02% |

# OTHER INFORMATION

| Name of Director or chief executive | Nature of interest[6] | Relevant company | Number and class of securities | Approximate percentage of shareholding in the relevant class of Shares[1] |
|---|---|---|---|---|
| Liu Qin[5] | Interest in controlled corporations(L) | Morningside China TMT Fund I, L.P. | 2,256,014,058 Class B Shares | 13.00% |
| | Interest in controlled corporations(L) | Morningside China TMT Fund II, L.P. | 362,902,034 Class B Shares | 2.09% |

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of June 30, 2019.

(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 4,291,600,457 Class A Shares and the 2,227,472,013 Class B Shares held by Smart Mobile Holdings Limited; 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 80,841,287 Class B Shares held by Team Guide Limited under the SFO.

(3) Lin Bin holds 2,397,995,563 Class A Shares as trustee of the Bin Lin Trust, which was established by Lin Bin (as the settlor) for the benefit of Lin Bin and his family. Apex Star LLC is wholly-owned by Lin Bin. Lin Bin therefore is deemed to be interested in 302,004,437 Class B Shares held by Apex Star LLC in addition to the 91,233,610 Class B Shares held by himself directly under the SFO.

(4) Shunwei Ventures Limited is a wholly-owned subsidiary of Shunwei China Internet Fund, L.P. Shunwei Capital Partners GP, L.P. is the general partner of Shunwei China Internet Fund, L.P. Shunwei Capital Partners GP Limited is the general partner of Shunwei Capital Partners GP, L.P., which is in turn owned by Silver Unicorn Ventures Limited as to 75%. Bright Inspiration Holdings Limited is a wholly-owned subsidiary of Shunwei China Internet Fund III L.P. Shunwei Capital Partners III GP, L.P. is the general partner of Shunwei China Internet Fund III L.P. Shunwei Capital Partners III GP Limited is the general partner of Shunwei Capital Partners III GP, L.P., which is owned by Silver Unicorn Ventures Limited as to 75%. Gifted Jade Limited is wholly-owned by Koh Tuck Lye. Silver Unicorn Ventures Limited is also wholly-owned by Koh Tuck Lye. Gifted Ventures Limited is wholly-owned by Gifted Capital Limited. The entire interests in Gifted Capital Limited are held by ARK Trust (Hong Kong) Limited as trustee for a trust established by Koh Tuck Lye (as settlor) for the benefit of Koh Tuck Lye and his family. Koh Tuck Lye is therefore deemed to be interested in the total of 334,951,094 Class B Shares held by Shunwei Ventures Limited, Shunwei Capital Partners GP, L.P., Bright Inspiration Holdings Limited, Gifted Ventures Limited and Gifted Jade Limited under the SFO.

(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 "**Morningside Funds**"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.

(6) The letter "L" denotes the person's long position in the shares.

## 2. Interest in associated corporations

| 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% |
| | Interest in controlled corporations(L) | Smart Mobile Holdings Limited[3] | 100% |
| | Interest in controlled corporation(L) | Shenzhen Pineapple Games Co., Ltd. (深圳市菠蘿遊戲有限公司) | 0% |
| | Interest in controlled corporation(L) | Zimi International Incorporation[4] | 9.43% |
| Koh Tuck Lye | Interest in controlled corporation(L) | Zimi International Incorporation[4] | 21.25% |
| | Interest in controlled corporation(L) | SMARTMI International Ltd[5] | 33.99% |

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of June 30, 2019.

(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, the holding company of the Company, 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 4,291,600,457 Class A Shares and 2,227,472,013 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.

(4) As of June 30, 2019, the Company held 21.25% of the equity interest of Zimi International Incorporation, and Zimi International Incorporation is therefore an associated corporation of the Company. Koh Tuck Lye and Lei Jun ultimately control Zimi International Incorporation as to approximately 21.25% (being 20,098,050, series A preferred shares and 2,000,000 series B preferred shares) and approximately 9.43% (being 9,803,900 ordinary shares), respectively.

(5) The Company is interested in 34.60% of the equity interest in SMARTMI International Ltd, and therefore SMARTMI International Ltd is an associated corporation of the Company. Koh Tuck Lye ultimately controls SMARTMI International Ltd as to approximately 33.99% (being 37,680,000 series A-1 preferred shares and 4,000,000 series A-2 preferred shares).

# OTHER INFORMATION

Save as disclosed above, as of June 30, 2019, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As of June 30, 2019, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| 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] | Beneficial interest | 4,291,600,457 | 64.15% |
| Sunrise Vision Holdings Limited[2] | Interest in controlled corporations | 4,291,600,457 | 64.15% |
| Parkway Global Holdings Limited[2] | Interest in controlled corporations | 4,291,600,457 | 64.15% |
| ARK Trust (Hong Kong) Limited[2] | Trustee | 4,291,600,457 | 64.15% |
| **Class B Shares** | | | |
| Smart Mobile Holdings Limited[2] | Beneficial interest | 2,227,472,013 | 12.84% |
| Sunrise Vision Holdings Limited[2] | Interest in controlled corporations | 2,286,693,643 | 13.18% |
| Parkway Global Holdings Limited[2] | Interest in controlled corporations | 2,286,693,643 | 13.18% |
| ARK Trust (Hong Kong) Limited[2] | Trustee | 4,835,967,052 | 27.87% |
| Shi Jianming[4, 5] | Interest in controlled corporations | 2,629,229,572 | 15.15% |
| Lou Yiting[5] | Interest of spouse | 2,629,229,572 | 15.15% |
| Ni Yuanyuan[6] | Interest of spouse | 2,618,916,092 | 15.10% |
| Landmark Trust Switzerland SA[4, 5] | Trustee | 2,618,916,092 | 15.10% |
| Morningside-Springfield Group Limited[3, 4] | Interest in controlled corporations | 2,618,916,092 | 15.10% |
| Morningside Group International Limited[3, 4] | Interest in controlled corporations | 2,618,916,092 | 15.10% |
| Morningside Ventures Limited[3, 4] | Interest in controlled corporations | 2,618,916,092 | 15.10% |

| Name of Substantial Shareholder | Nature of interest | Number of Shares | Approximate percentage of shareholding in the relevant class of Shares[1] |
|---|---|---|---|
| Morningside Venture (VII) Investments Limited[3, 4] | Interest in controlled corporations | 2,618,916,092 | 15.10% |
| TMT General Partner Ltd.[3, 4] | Interest in controlled corporations | 2,618,916,092 | 15.10% |
| Morningside China TMT GP, L.P.[3] | Interest in controlled corporations | 2,256,014,058 | 13.00% |
| Morningside China TMT Fund I, L.P.[3] | Beneficial interest | 2,256,014,058 | 13.00% |

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of June 30, 2019.

(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 4,291,600,457 Class A Shares and the 2,227,472,013 Class B Shares held by Smart Mobile Holdings Limited; 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 80,841,287 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 2,468,432,122 Class B shares held by the trusts.

(3) TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P. which respectively control Morningside China TMT Fund I, L.P., which holds 2,256,014,058 Class B Shares, and Morningside China TMT Fund II, L.P, which holds 362,902,034 Class B Shares. Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.

(4) Each of Liu Qin (our non-executive Director), Shi Jianming and Morningside Venture (VII) Investments Limited 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. Morningside Ventures Limited is indirectly 100% held through a series of 100% owned holding companies by the Landmark Trust Switzerland SA as trustee of a discretionary trust established by Mdm. Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. None of the discretionary objects of this trust are Directors.

(5) Lou Yiting is deemed to be interested in these Shares through the interest of her spouse, Shi Jianming.

(6) Ni Yuanyuan is deemed to be interested in these Shares through the interest of her spouse, Liu Qin (non-executive Director). The interests of Liu Qin is disclosed in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations".

# OTHER INFORMATION

Save as disclosed above, as of June 30, 2019, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## 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, 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.

### 1. Pre-IPO ESOP

The Pre-IPO ESOP was adopted by the Company on May 5, 2011, superseded on August 24, 2012. The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent. The terms of the Pre-IPO ESOP are not subject to Chapter 17 of the Listing Rules. As of June 30, 2019, the Company has conditionally granted share options and RSUs to eligible participants pursuant to the Pre-IPO ESOP, entitling the holders to acquire an aggregate of 977,894,195 Class B Shares, excluding 430,514,638 Class B shares which have been exercised. No share options and RSUs had been granted to the Directors. No further option could be granted under the Pre-IPO ESOP after the Listing.

Details of movements of share options and RSUs granted under the Pre-IPO ESOP during the six months ended June 30, 2019 are as follows:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Grantees in aggregate | Dates of grant | Vesting period | Outstanding as of January 1, 2019 | Cancelled/ Lapsed during the period | Exercised during the period | Outstanding as of June 30, 2019 | Exercise price (US$) |
| 7,126 | Between April 1, 2010 to June 14, 2018 | 1–10 years | 1,442,334,553 | (33,925,720) | (430,514,638) | 977,894,195 | 0 to 0.34 |

Further details of the Pre-IPO ESOP are set out in Note 24 to the Interim Financial Information.

## 2. Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted by the Company on June 17, 2018. The purpose of the 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 our Company and its Shares for the benefit of our Company and the Shareholders as a whole. The Post-IPO Share Option Scheme will provide the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants. The terms of the Post-IPO Share Option Scheme are governed by Chapter 17 of the Listing Rules. No share options had been granted under the Post-IPO Share Option Scheme after the Listing.

As of June 30, 2019, no options had been granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme since its adoption. The total number of Class B Shares available for grant under the Post-IPO Share Option Scheme was 2,237,613,083 Class B Shares, representing approximately 9.3% of the issued share capital of the Company as of the date of this interim report.

## 3. XMF Share Option Schemes

The XMF Share Option Scheme I was adopted by the shareholders of Xiaomi Finance on June 17, 2018. The XMF Share Option Scheme I is not subject to Chapter 17 of the Listing Rules. The purpose of the XMF Share Option Scheme I is to provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders.

The XMF Share Option Scheme II was approved by the shareholders of Xiaomi Finance on June 17, 2018. The XMF Share Option Scheme II is governed by Chapter 17 of the Listing Rules. The purpose of the XMF Share Option Scheme II is to provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders.

As of June 30, 2019, there were a total of 42,070,000 outstanding share options granted under the XMF Share Option Scheme I. Details of movements of share options granted under the XMF Share Option Scheme I during the six months ended June 30, 2019 are as follows:

| Name | Date of grant | Operation period | Number of XMF Shares represented by the option granted | Number of options exercised during the period | Numbers of options as of June 30, 2019 | Subscription price (RMB) |
|---|---|---|---|---|---|---|
| Lei Jun | June 17, 2018 | 20 years from the date of grant | 42,070,000 | – | 42,070,000 | 3.8325 |

# OTHER INFORMATION

As of June 30, 2019, no options had been granted, agreed to be granted pursuant to the XMF Share Option Scheme II since its adoption. The total number of XMF Shares available for grant under the XMF Share Option Scheme II was 107,930,000 XMF Shares, representing 107.93% of the issued share capital of Xiaomi Finance as of the date of this interim report and 43.17% of the issued share capital of Xiaomi Finance assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised.

## 4. Pinecone Share Option Schemes

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 Pinecone Share Option Scheme I is not subject to Chapter 17 of the Listing Rules. The purpose of the Pinecone Share Option Scheme I is to promote the success of Pinecone International and the interests of its shareholders by proving a means through which Pinecone International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of awarded recipients with those of Pinecone International's shareholders generally.

The Pinecone Share Option Scheme II was adopted pursuant to the written resolutions of the shareholders of Pinecone International on June 17, 2018. The Pinecone Share Option Scheme II is subject to Chapter 17 of the Listing Rules. The purpose of the Pinecone Share Option Scheme II is to provide selected participants with the opportunity to acquire proprietary interests in Pinecone International and to encourage selected participants to work towards enhancing the value of Pinecone International and its shares for the benefit of Pinecone International and its shareholders, including our Company, as a whole.

As of June 30, 2019, there were 120,342 outstanding Pinecone Options granted under the Pinecone Share Option Scheme I. The aggregate number of underlying Pinecone Ordinary Shares pursuant to the Pinecone Options granted is 9,532,868 Pinecone Ordinary Shares.

Details of movements of Pinecone Options under the Pinecone Share Option Scheme I during the six months ended June 30, 2019 are as follows:

| Grantees in aggregate | Date of grant | Vesting period | Number of share options: Outstanding as of January 1, 2019 | Cancelled/ Lapsed during the period | Outstanding as of June 30, 2019 | Exercise price (US$) |
|---|---|---|---|---|---|---|
| 177 | Between May 18, 2015 to June 8, 2018 | 4 years | 9,257,842 | 9,137,500 | 120,342 | 0.0001 to 1.0377 |

As of June 30, 2019, no options under the Pinecone Share Option Scheme II had been granted or agreed to be granted since its adoption. The total number of Pinecone Ordinary Shares available for grant under the Pinecone Share Option Scheme II was 2,467,132 Pinecone Ordinary Shares, representing 9.87% of the issued share capital of Pinecone International as of the date of this interim report.

## Share Award Scheme

The Company adopted the Share Award Scheme on June 17, 2018. The purposes of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B Shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B Shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group.

As of June 30, 2019, there are 20,042,045 outstanding RSUs granted to 278 participants under the Share Award Scheme. Further details of movements in the Share Award Schemes during the six months ended June 30, 2019 are set out in Note 24 to the Interim Financial Information.

Details of movements of RSUs granted during the six months ended June 30, 2019 are as follows:

| Grantees in aggregate | Dates of grant | Vesting period | Number of RSUs: Outstanding as of January 1, 2019 | Granted during the period | Cancelled/ Lapsed during the period | Exercised during the period | Outstanding as of June 30, 2019 |
|---|---|---|---|---|---|---|---|
| 278 | April 1, 2019 | 1-10 years | – | 22,466,301 | (696,256) | (1,728,000) | 20,042,045 |

# OTHER INFORMATION

## Weighted Voting Rights

The Company is controlled through weighted voting rights. Each Class A Share has 10 votes per share and each Class B Share has one vote per share except with respect to resolutions regarding a limited number of Reserved Matters, where each Share has one vote. The Company's weighted voting rights structure will enable the WVR Beneficiaries to exercise voting control over the Company notwithstanding the WVR Beneficiaries do not hold a majority economic interest in the share capital of the Company. This allows the Company to benefit from the continuing vision and leadership of the WVR Beneficiaries who will control the Company with a view to its long-term prospects and strategy.

Shareholders and prospective investors are advised to be aware of the potential risks of investing in companies with weighted voting rights structures, in particular that interests of the WVR Beneficiaries may not necessarily always be aligned with those of our Shareholders as a whole, and that the WVR Beneficiaries will be in a position to exert significant influence over the affairs of the Company and the outcome of shareholders' resolutions, irrespective of how other shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration.

As of June 30, 2019, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,291,600,457 Class A Shares, representing approximately 50.9% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 2,397,995,563 Class A Shares, representing 28.5% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held on behalf of Lin Bin and his family members by Lin Bin as trustee of the Bin Lin Trust.

Class A Shares may be converted into Class B Shares on a one to one ratio. As of June 30, 2019, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 6,689,596,020 Class B Shares, representing 38.6% of the total number of issued and outstanding Class B Shares or 27.8% of the issued share capital of the Company.

The weighted voting rights attached to Class A Shares will cease when none of the WVR Beneficiaries have beneficial ownership of any of the Class A Shares, in accordance with Rule 8A.22 of the Listing Rules. This may occur:

(i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of the Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;

(ii) when the Class A Shareholders have transferred to another person the beneficial ownership of, or economic interest in, all of the Class A Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;

(iii) where a vehicle holding Class A Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules; or

(iv) when all of the Class A Shares have been converted to Class B Shares.

## Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting stringent corporate governance standards. The principles of the Company's corporate governance are to promote effective internal control measures and to enhance the transparency and accountability of the Board to all the Shareholders.

Save for code provision A.2.1 of the CG Code, the Company has complied with all the code provisions set out in the CG Code during the six months ended June 30, 2019.

Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Mr. Lei Jun currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of the chairman of the Board and chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

## Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code throughout the six months ended June 30, 2019 up to the date of this interim report.

# OTHER INFORMATION

## Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended June 30, 2019 and up to the date of this interim report, the Company repurchased a total of 125,510,000 Class B Shares (the "**Shares Repurchased**") of the Company on the Stock Exchange at an aggregate consideration (including transaction cost) of HK$1,199,982,104. Particulars of the Shares Repurchased are as follows:

| Month of Repurchase | No. of Shares Repurchased | Price paid per share Highest (HK$) | Price paid per share Lowest (HK$) | Aggregate Consideration (HK$) |
|---|---|---|---|---|
| January | 19,972,200 | 10.20 | 9.74 | 199,931,233 |
| June | 97,927,800 | 10.04 | 8.96 | 925,210,318 |
| July | 7,610,000 | 10.00 | 9.70 | 74,840,553 |
| Total | 125,510,000 | | | 1,199,982,104 |

The number of Class B Shares in issue was reduced by 125,510,000 shares as a result of the cancellation accordingly. Upon cancellation of the Shares Repurchased, the WVR Beneficiaries of the Company simultaneously reduced their weighted voting rights in the Company proportionately by way of converting their Class A Shares into Class B Shares on a one-to-one ratio pursuant to Rule 8A.21 of the Listing Rules, such that the proportion of shares carrying weighted voting rights of the Company shall not be increased, pursuant to the requirements under Rules 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in January was subsequently cancelled on February 1, 2019. A total of 5,591,700 Class A Shares were converted into Class B Shares on a one-to-one ratio on February 1, 2019, of which Lei Jun, through Smart Mobile Holdings Limited, converted 3,587,263 Class A Shares and Lin Bin, through Bin Lin Trust, converted 2,004,437 Class A Shares. The Shares Repurchased in June and July was subsequently cancelled on July 25, 2019. A total of 29,347,128 Class A Shares were converted into Class B Shares on a one-to-one ratio on July 25, 2019, of which Lei Jun, through Smart Mobile Holdings Limited, converted 18,827,168 Class A Shares and Lin Bin, through Bin Lin Trust, converted 10,519,960 Class A Shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the six months ended June 30, 2019 and up to the date of this interim report.

## Disclosure of Changes in Directors' Information Pursuant to Listing Rule 13.51(B)(1)

Dr. Lee Ka Kit, an independent non-executive Director [Note], has been appointed as joint chairman and managing director of Henderson Land Development Company Limited (HKEx Stock Code: 0012) effective on May 28, 2019. He has also been appointed as the chairman of The Hong Kong and China Gas Company Limited (HKEx Stock Code: 0003) effective on May 28, 2019.

## Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2019.

## Use of Net Proceeds from Listing

With the shares of the Company listed on the Stock Exchange on July 9, 2018, the net proceeds received by the Company from the Global Offering (as defined in the Prospectus) were approximately HK$27,561.0 million. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs.

As of June 30, 2019, the Group had utilized the net proceeds as set out in the table below.

| | Net proceeds from Global Offering (HK$ million) | Utilization for the period ended June 30, 2019 (HK$ million) | Unutilized amount (HK$ million) |
|---|---|---|---|
| Research and development to develop core in-house products | 8,268.3 | 4,561.0 | 3,707.3 |
| Investments to expand and strengthen ecosystem | 8,268.3 | 2,221.0 | 6,047.3 |
| Global expansion | 8,268.3 | 8,268.3 | — |
| Working capital and other general corporate purposes | 2,756.1 | 2,756.1 | — |

## Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. The Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Dr. Chen Dongsheng, Mr. Koh Tuck Lye and Mr. Wong Shun Tak. Mr. Wong Shun Tak is the chairman of the Audit Committee.

Note: Resigned from the Board effective on August 23, 2019.

# OTHER INFORMATION

The Audit Committee has reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

## Other Board Committees

In addition to the Audit Committee, the Company has also established a nomination committee, a remuneration committee and a corporate governance committee.

## Corporate Governance Committee

The Company has established the Corporate Governance Committee in compliance with Rule 8A.30 of the Listing Rules and the CG Code. The primary duties of the Corporate Governance Committee are to ensure that the Company is operated and managed for the benefit of all Shareholders and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company. The members of the Corporate Governance Committee are the independent non-executive Directors, namely, Dr. Chen Dongsheng, Dr. Lee Ka Kit[1] and Mr. Wong Shun Tak. Mr. Chen Dongsheng is the chairman of the Corporate Governance Committee.

The following is a summary of work performed by the Corporate Governance Committee during the six months ended June 30, 2019 up to the date of this interim report:

- Reviewed the policies and practices of the Company on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include Code for Securities Transactions by Directors and Relevant Employees, Board Diversity Policy, Shareholders' Communication Policy, Procedures for Nomination of Director by Shareholders, Disclosure of Information Policy, Connected Transactions Policy and Whistle-blowing Policy.

- Reviewed the Company's compliance with the CG Code and the deviation from code provision A.2.1 of the CG Code and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.

- Reviewed the management of conflicts of interests and risks relating to the weighted voting rights structure, and reviewed the relevant measures adopted by the Company, and made relevant recommendations to the Board to ensure good corporate governance standards and to avoid potential conflicts of interest between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.

1 Resigned from the Board effective on August 23, 2019.

- Reviewed the arrangements for the training and continuous professional development of Directors and senior management (in particular, Chapter 8A of the Listing Rules and knowledge in relation to risks relating to the weighted voting rights structure).

- Reviewed and confirmed that throughout the period from the Listing Date to June 30, 2019, (i) the WVR Beneficiaries have been the Directors and no matters under Rule 8A.17 of the Listing Rules have occurred; and (ii) the WVR Beneficiaries have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules.

- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.

## Qualification Requirements

### Updates in Relation to the Qualification Requirements

On December 11, 2001, the State Council promulgated the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (the "**FITE Regulations**"), which were amended on September 10, 2008 and February 6, 2016. According to the FITE Regulations, foreign investors are not allowed to hold more than 50% of the equity interests in a company providing value-added telecommunications services, including provision of Internet content services. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "**Qualification Requirements**"). Currently none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirements. According to our consultation with the Ministry of Industry and Information Technology (the "**MIIT**") in March 2018, it confirms that there is no clear guidance about how a foreign investor could meet the Qualification Requirements, and it applies a relatively strict standard for identifying whether foreign investors meet the Qualification Requirements.

### Efforts and Actions Undertaken to Comply with the Qualification Requirements

Despite the lack of clear guidance or interpretation on the Qualification Requirements, we have been gradually building up our track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests in Onshore Holdcos or any of our Consolidated Affiliated Entities when the relevant PRC laws allow foreign investors to invest and to hold any equity interest in enterprises which engage in the value-added telecommunications enterprises in China. For the purposes of meeting the Qualification Requirements, we are in the process of establishing and accumulating overseas operation experience, for example:

(a) we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;

(b) Xiaomi Inc. has entered into an agreement with a third party in relation to the operation and management of the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and

(c) we have registered a number of domain names overseas for the purpose of promoting our products and services.

# OTHER INFORMATION

In our consultation with the MIIT, the MIIT also confirmed that the above steps taken by us may be deemed to satisfy the Qualification Requirements if we follow the above steps continuously for a period of time and have accumulated the experience in providing the value-added telecommunications services in overseas markets, which is in accordance with the FITE Regulations.

Because foreign investment in certain areas of the industry in which we currently and may operate are subject to restrictions under current PRC laws and regulations outlined above, after consultation with our PRC Legal Advisor, we determined that it was not viable for the Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and have the right to receive all the economic benefits generated by the businesses currently operated by Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and the Consolidated Affiliated Entities and the Registered Shareholders, on the other hand. The Contractual Arrangements allow the financial results of our Consolidated Affiliated Entities to be consolidated into our results of our Group's financial information as if they were subsidiaries of our Group.

Further details of the Contractual Arrangements are set out in the Prospectus and the Company's 2018 annual report.

## Material Litigation

As of June 30, 2019, the Company was not involved in any material litigation or arbitration. Nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

## Events After the End of Reporting Period

Save as disclosed in this interim report, there was no other significant events that might affect the Group after June 30, 2019 and up to the date of this interim report.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

pwc 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 50 to 109, which comprises the consolidated balance sheet of Xiaomi Corporation (the "**Company**") and its subsidiaries (together, the "**Group**") as of June 30, 2019 and the consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-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, August 20, 2019

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com

# CONSOLIDATED INCOME STATEMENT

For the three months and six months ended June 30, 2019

(Expressed in Renminbi ("**RMB**"))

| | Note | Unaudited Three months ended June 30, 2019 RMB'000 | Unaudited Three months ended June 30, 2018 RMB'000 | Unaudited Six months ended June 30, 2019 RMB'000 | Unaudited Six months ended June 30, 2018 RMB'000 |
|---|---|---|---|---|---|
| **Revenue** | 6 | **51,951,129** | 45,235,473 | **95,707,952** | 79,647,835 |
| Cost of sales | 6, 9 | **(44,692,410)** | (39,583,661) | **(83,233,656)** | (69,694,596) |
| **Gross profit** | | **7,258,719** | 5,651,812 | **12,474,296** | 9,953,239 |
| Selling and marketing expenses | 9 | **(2,295,294)** | (2,075,709) | **(4,139,978)** | (3,478,538) |
| Administrative expenses | 9 | **(723,513)** | (10,456,916) | **(1,355,535)** | (10,922,239) |
| Research and development expenses | 9 | **(1,556,145)** | (1,363,619) | **(3,206,724)** | (2,467,394) |
| Fair value changes on investments measured at fair value through profit or loss | 15 | **(670,653)** | 526,910 | **1,962,062** | 2,289,778 |
| Share of losses of investments accounted for using the equity method | 10 | **(12,080)** | (128,512) | **(157,472)** | (112,183) |
| Other income | 7 | **406,353** | 207,315 | **466,600** | 365,541 |
| Other (losses)/gains, net | 8 | **(71,280)** | 46,757 | **(92,966)** | 144,324 |
| **Operating profit/(loss)** | | **2,336,107** | (7,591,962) | **5,950,283** | (4,227,472) |
| Finance income/(expense), net | | **98,211** | (32,330) | **201,175** | (14,496) |
| Fair value changes of convertible redeemable preferred shares | 23 | **—** | 22,532,721 | **—** | 12,461,345 |
| **Profit before income tax** | | **2,434,318** | 14,908,429 | **6,151,458** | 8,219,377 |
| Income tax expenses | 11 | **(478,760)** | (275,782) | **(1,004,156)** | (614,141) |
| **Profit for the period** | | **1,955,558** | 14,632,647 | **5,147,302** | 7,605,236 |
| **Profit attributable to:** | | | | | |
| — Owners of the Company | | **1,951,956** | 14,651,318 | **5,077,915** | 7,646,195 |
| — Non-controlling interests | | **3,602** | (18,671) | **69,387** | (40,959) |
| | | **1,955,558** | 14,632,647 | **5,147,302** | 7,605,236 |
| **Earnings/(loss) per share (expressed in RMB per share)** | 12 | | | | |
| Basic | | **0.082** | 1.409 | **0.214** | 0.759 |
| Diluted | | **0.079** | (0.377) | **0.206** | (0.234) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and six months ended June 30, 2019

(Expressed in RMB)

| | Note | Unaudited Three months ended June 30, 2019 RMB'000 | 2018 RMB'000 | Unaudited Six months ended June 30, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|---|---|
| **Profit for the period** | | 1,955,558 | 14,632,647 | 5,147,302 | 7,605,236 |
| **Other comprehensive income/(loss):** | | | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | | | |
| Share of other comprehensive (loss)/income of investments accounted for using the equity method | 10 | (32,618) | 125,515 | (14,530) | 111,153 |
| Currency translation differences | | (77,981) | (212,762) | 33,636 | (399,244) |
| *Item that will not be reclassified subsequently to profit or loss* | | | | | |
| Currency translation differences | | 675,564 | (7,392,513) | 81,609 | (1,480,779) |
| **Other comprehensive income/(loss) for the period, net of tax** | | 564,965 | (7,479,760) | 100,715 | (1,768,870) |
| **Total comprehensive income for the period** | | 2,520,523 | 7,152,887 | 5,248,017 | 5,836,366 |
| **Attributable to:** | | | | | |
| — Owners of the Company | | 2,510,048 | 7,163,993 | 5,176,000 | 5,875,458 |
| — Non-controlling interests | | 10,475 | (11,106) | 72,017 | (39,092) |
| | | 2,520,523 | 7,152,887 | 5,248,017 | 5,836,366 |

# CONSOLIDATED BALANCE SHEET

As of June 30, 2019

(Expressed in RMB)

| | Note | Unaudited As of June 30, 2019 RMB'000 | Audited As of December 31, 2018 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Land use rights | | — | 3,402,968 |
| Property and equipment | 13 | 5,891,124 | 5,068,053 |
| Intangible assets | 14 | 1,803,026 | 2,061,192 |
| Investments accounted for using the equity method | 10 | 9,454,872 | 8,639,238 |
| Long-term investments measured at fair value through profit or loss | 15 | 19,195,544 | 18,636,208 |
| Deferred income tax assets | 22 | 1,560,637 | 1,312,245 |
| Other non-current assets | 19, 30 | 4,699,364 | 95,485 |
| | | 42,604,567 | 39,215,389 |
| **Current assets** | | | |
| Inventories | 18 | 26,675,009 | 29,480,685 |
| Trade receivables | 16 | 7,337,191 | 5,598,443 |
| Loan receivables | | 11,733,101 | 10,293,645 |
| Prepayments and other receivables | 17 | 18,778,550 | 20,914,946 |
| Short-term investments measured at fair value through profit or loss | 15 | 13,122,294 | 6,648,526 |
| Short-term bank deposits | | 2,433,226 | 1,365,991 |
| Restricted cash | | 649,707 | 1,480,178 |
| Cash and cash equivalents | | 34,921,028 | 30,230,147 |
| | | 115,650,106 | 106,012,561 |
| **Total assets** | | 158,254,673 | 145,227,950 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 20 | 384 | 377 |
| Reserves | 20 | 76,691,510 | 71,322,608 |
| | | 76,691,894 | 71,322,985 |
| **Non-controlling interests** | | 154,556 | (72,856) |
| **Total equity** | | 76,846,450 | 71,250,129 |

# CONSOLIDATED BALANCE SHEET

As of June 30, 2019

(Expressed in RMB)

| | Note | Unaudited As of June 30, 2019 RMB'000 | Audited As of December 31, 2018 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 21 | 7,099,923 | 7,856,143 |
| Deferred income tax liabilities | 22 | 758,583 | 777,645 |
| Warranty provision | | 753,026 | 559,016 |
| Other non-current liabilities | 25, 30 | 3,589,735 | 2,844,859 |
| | | 12,201,267 | 12,037,663 |
| **Current liabilities** | | | |
| Trade payables | 26 | 48,799,255 | 46,287,271 |
| Other payables and accruals | 27, 30 | 7,006,271 | 6,312,770 |
| Advance from customers | | 4,668,089 | 4,479,522 |
| Borrowings | 21 | 6,679,136 | 3,075,194 |
| Income tax liabilities | | 615,083 | 661,816 |
| Warranty provision | | 1,439,122 | 1,123,585 |
| | | 69,206,956 | 61,940,158 |
| **Total liabilities** | | 81,408,223 | 73,977,821 |
| **Total equity and liabilities** | | 158,254,673 | 145,227,950 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

(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, 2019** | | 377 | — | 43,851,282 | 6,447,415 | 21,023,911 | 71,322,985 | (72,856) | 71,250,129 |
| **Comprehensive income** | | | | | | | | | |
| Profit for the period | | — | — | — | — | 5,077,915 | 5,077,915 | 69,387 | 5,147,302 |
| **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 | 10 | — | — | — | (14,530) | — | (14,530) | — | (14,530) |
| Currency translation differences | | — | — | — | 31,006 | — | 31,006 | 2,630 | 33,636 |
| *Item that will not be reclassified subsequently to profit or loss* | | | | | | | | | |
| Currency translation differences | | — | — | — | 81,609 | — | 81,609 | — | 81,609 |
| **Total comprehensive income** | | — | — | — | 98,085 | 5,077,915 | 5,176,000 | 72,017 | 5,248,017 |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Purchase of own shares | 20 | — | (982,910) | — | — | — | (982,910) | — | (982,910) |
| Cancellation of shares | 20 | — | 171,002 | (171,002) | — | — | — | — | — |
| Release of ordinary shares from Share Scheme Trusts | 20 | — | — | 43,414 | (34,523) | — | 8,891 | — | 8,891 |
| Share of other reserves of investments accounted for using the equity method | 10 | — | — | — | 96,842 | — | 96,842 | — | 96,842 |
| Employees share-based compensation scheme: | | | | | | | | | |
| — value of employee services | 24 | — | — | — | 973,651 | — | 973,651 | (101) | 973,550 |
| — exercise of share options and restricted stock units | 20, 24 | 7 | — | 816,238 | (719,810) | — | 96,435 | — | 96,435 |
| Capital injection from non-controlling interests | | — | — | — | — | — | — | 155,496 | 155,496 |
| **Total transactions with owners in their capacity as owners** | | 7 | (811,908) | 688,650 | 316,160 | — | 192,909 | 155,395 | 348,304 |
| **Balance at June 30, 2019** | | 384 | (811,908) | 44,539,932 | 6,861,660 | 26,101,826 | 76,691,894 | 154,556 | 76,846,450 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2019

(Expressed in RMB)

| | | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the Company | | | | | | |
| | Note | Share capital RMB'000 | Share premium RMB'000 | Other reserves RMB'000 | Accumulated losses RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **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 period | | – | – | – | 7,646,195 | 7,646,195 | (40,959) | 7,605,236 |
| **Other comprehensive loss** | | | | | | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | |
| Share of other comprehensive income of investments accounted for using the equity method | 10 | – | – | 111,153 | – | 111,153 | – | 111,153 |
| Currency translation differences | | – | – | (401,111) | – | (401,111) | 1,867 | (399,244) |
| *Item that will not be reclassified subsequently to profit or loss* | | | | | | | | |
| Currency translation differences | | – | – | (1,480,779) | – | (1,480,779) | – | (1,480,779) |
| **Total comprehensive income** | | – | – | (1,770,737) | 7,646,195 | 5,875,458 | (39,092) | 5,836,366 |
| **Transactions with owners in their capacity as owners** | | | | | | | | |
| Issuance of ordinary shares | | 11 | 9,827,146 | – | – | 9,827,157 | – | 9,827,157 |
| Share of other reserves of investments accounted for using the equity method | 10 | – | – | 16,839 | – | 16,839 | – | 16,839 |
| Employees share-based compensation scheme: | | | | | | | | |
| – value of employee services | 24 | – | – | 1,042,443 | – | 1,042,443 | 102,608 | 1,145,051 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | | – | 230,899 | (145,617) | – | 85,282 | (32,746) | 52,536 |
| Others | | – | – | (6,309) | – | (6,309) | 1,500 | (4,809) |
| **Total transactions with owners in their capacity as owners** | | 11 | 10,058,045 | 907,356 | – | 10,965,412 | 71,362 | 11,036,774 |
| **Balance at June 30, 2018** | | 161 | 10,800,805 | 84,039 | (121,316,496) | (110,431,491) | 93,940 | (110,337,551) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

(Expressed in RMB)

| | Unaudited Six months ended June 30, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated from operations | 11,977,895 | 7,050,130 |
| Income tax paid | (1,062,471) | (928,587) |
| Net cash generated from operating activities | 10,915,424 | 6,121,543 |
| **Cash flows from investing activities** | | |
| Capital expenditures | (1,484,780) | (1,014,684) |
| Proceeds from disposal of property and equipment | 63,469 | 32,204 |
| Placement of short-term bank deposits | (3,106,219) | (7,121) |
| Withdrawal of short-term bank deposits | 2,021,848 | 210,223 |
| Placement of long-term bank deposits | (201,106) | — |
| Purchase of short-term investments measured at fair value through profit or loss | (56,194,700) | (60,959,000) |
| Receipt from maturity of short-term investments measured at fair value through profit or loss | 49,795,524 | 57,674,066 |
| 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 | 439,415 | 201,874 |
| Investment income received | 132,675 | 95,390 |
| Purchase of long-term investments measured at fair value through profit or loss | (2,399,499) | (910,642) |
| Proceeds from disposal of long-term investments measured at fair value through profit or loss | 2,703,687 | 159,755 |
| Purchase of investments accounted for using the equity method | — | (167,307) |
| Proceeds from disposal of investments accounted for using the equity method | 74,848 | 100 |
| Disposal of a subsidiary | — | (25,655) |
| Acquisition of a subsidiary, net of cash acquired | — | (34,907) |
| Dividends received | 124,284 | 119,975 |
| Net cash used in investing activities | (8,030,554) | (3,825,729) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2019

(Expressed in RMB)

| | Unaudited Six months ended June 30, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | 6,400,670 | 4,834,739 |
| Repayment of borrowings | (3,568,042) | (3,066,095) |
| Finance expenses paid | (116,517) | (136,958) |
| Placement of restricted cash | — | (3,304,338) |
| Withdrawal of restricted cash | 95 | 254,834 |
| Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary | (167,400) | (20,000) |
| Net proceeds from exercise of share options | 464,124 | — |
| Payments for shares repurchase | (982,910) | — |
| Capital contribution from non-controlling interests | 155,496 | — |
| Payment of lease liabilities including principal and interests | (293,517) | — |
| Proceeds from fund partners | — | 2,631,000 |
| Net cash generated from financing activities | 1,891,999 | 1,193,182 |
| **Net increase in cash and cash equivalents** | 4,776,869 | 3,488,996 |
| Cash and cash equivalents at the beginning of the period | 30,230,147 | 11,563,282 |
| Effects of exchange rate changes on cash and cash equivalents | (85,988) | (158,128) |
| **Cash and cash equivalents at end of the period** | 34,921,028 | 14,894,150 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(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 this financial information.

The condensed consolidated interim financial information comprises the consolidated balance sheet as of June 30, 2019, the consolidated income statement and the consolidated statement of comprehensive income for the three-month and six-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six-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 August 20, 2019.

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, 2018 which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") by the Group as set out in the 2018 annual report of the Company dated March 19, 2019 (the "**2018 Financial Statements**").

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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, 2018, as described in the 2018 Financial Statements, except for the adoption of new and amended standards as set out below.

### 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 below.

The Group has adopted IFRS 16 Leases 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.

At 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 average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.16% per annum. See Note 30 Leases for details.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 3 Significant accounting policies (continued)

### New and amended standards adopted by the Group (continued)

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 includes 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.

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;
- the accounting for certain operating leases with a remaining lease term of less than 12 months as of January 1, 2019 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.

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 as of December 31, 2018 as disclosed in 2018 Financial Statements | 1,029,240 |
| Discounted using the Group's incremental borrowing rate of 5.16% | 1,028,748 |
| (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 | 89,053 |
| Lease liability recognized as of January 1, 2019 | 858,833 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 3 Significant accounting policies (continued)

### New and amended standards adopted by the Group (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

Payments associated with short-term leases 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.

In addition, upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

## 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 the same as those applied to the 2018 Financial Statements.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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 2018 Financial Statements and there have been no significant changes in the financial risk management policies for the three months and six months ended June 30, 2019.

### 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 at 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 June 30, 2019.

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **(Unaudited)** | | | | |
| **Assets** | | | | |
| Long-term investments measured at fair value through profit or loss (Note 15) | 5,078,433 | — | 14,117,111 | 19,195,544 |
| Short-term investments measured at fair value through profit or loss (Note 15) | — | — | 13,122,294 | 13,122,294 |
| | 5,078,433 | — | 27,239,405 | 32,317,838 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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, 2018.

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **(Audited)** | | | | |
| **Assets** | | | | |
| Long-term investments measured at fair value through profit or loss (Note 15) | 5,215,898 | — | 13,420,310 | 18,636,208 |
| Short-term investments measured at fair value through profit or loss (Note 15) | — | — | 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 INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 5 Financial risk management and financial instruments (continued)

### 5.2 Fair value estimation (continued)

#### (c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

Level 3 instruments of the Group's assets and liabilities include long-term investments measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and convertible redeemable preferred shares ("**Preferred Shares**").

The changes in level 3 instruments of Preferred Shares for the six months ended June 30, 2018 is presented in the Note 23.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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 six months ended June 30, 2019 and 2018.

| | Six months ended June 30, | |
|---|---|---|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
| At the beginning of the period | 13,420,310 | 13,092,429 |
| Additions | 1,754,832 | 716,220 |
| Disposals | (92,496) | (115,798) |
| Changes in fair value | 865,075 | 2,558,209 |
| Transfer to long-term investments accounted for using the equity method | (958,701) | (5,465,081) |
| Transfer to level 1 financial instruments | (896,802) | (347,123) |
| Exchange gains/(losses) | 24,893 | (82,318) |
| At the end of the period | 14,117,111 | 10,356,538 |
| Net unrealized gains for the period | 513,792 | 649,880 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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 short-term investments measured at fair value through profit or loss for the six months ended June 30, 2019 and 2018.

| | Six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| At the beginning of the period | 6,648,526 | 4,488,076 |
| Additions | 56,194,700 | 60,959,000 |
| Disposals | (49,906,901) | (57,674,066) |
| Changes in fair value | 185,969 | 127,892 |
| At the end of the period | 13,122,294 | 7,900,902 |
| Net unrealized gains for the period | 53,294 | 32,502 |

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included Preferred Shares (Note 23), long-term investments measured at fair value through profit or loss in unlisted companies (Note 15) and short-term investments measured at fair value through profit or loss (Note 15). 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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 June 30, 2019 | As of December 31, 2018 | | As of June 30, 2019 | As of December 31, 2018 | |
| | RMB'000 (Unaudited) | RMB'000 (Audited) | | | | |
| Investments in unlisted companies measured at fair value through profit or loss | 14,117,111 | 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 | 13,122,294 | 6,648,526 | Expected rate of return | 3%–4% | 2%–5% | The higher the expected rate of return, the higher the fair value |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 5 Financial risk management and financial instruments (continued)

### 5.2 Fair value estimation (continued)

#### (c) Financial instruments in level 3 (continued)

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the six months ended June 30, 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.

## 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

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 6 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/(expense), 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 2018 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 three months and six months ended June 30, 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 INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 6 Segment information (continued)

The segment results for the three months and six months ended June 30, 2019 and 2018 are as follows:

| | Three months ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | | | |
| Segment revenues | 32,021,039 | 14,944,694 | 4,580,174 | 405,222 | 51,951,129 |
| Cost of sales | (29,431,477) | (13,272,767) | (1,574,761) | (413,405) | (44,692,410) |
| Gross profit/(loss) | 2,589,562 | 1,671,927 | 3,005,413 | (8,183) | 7,258,719 |

| | Three months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | | | |
| Segment revenues | 30,501,122 | 10,378,798 | 3,958,220 | 397,333 | 45,235,473 |
| Cost of sales | (28,458,873) | (9,399,472) | (1,472,999) | (252,317) | (39,583,661) |
| Gross profit | 2,042,249 | 979,326 | 2,485,221 | 145,016 | 5,651,812 |

| | Six months ended June 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | | | |
| Segment revenues | 59,029,691 | 26,987,647 | 8,837,491 | 853,123 | 95,707,952 |
| Cost of sales | (55,555,130) | (23,867,078) | (2,962,431) | (849,017) | (83,233,656) |
| Gross profit | 3,474,561 | 3,120,569 | 5,875,060 | 4,106 | 12,474,296 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 6 Segment information (continued)

| | Six months ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Smartphones | IoT and lifestyle products | Internet services | Others | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | | | |
| Segment revenues | 53,740,612 | 18,075,364 | 7,189,570 | 642,289 | 79,647,835 |
| Cost of sales | (50,352,247) | (16,274,494) | (2,692,412) | (375,443) | (69,694,596) |
| Gross profit | 3,388,365 | 1,800,870 | 4,497,158 | 266,846 | 9,953,239 |

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the three months and six months ended June 30, 2019 and 2018, the geographical information on the total revenues is as follows:

| | **Three months ended June 30,** | | | | **Six months ended June 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2019** | | 2018 | | **2019** | | 2018 | |
| | **RMB'000** | **%** | RMB'000 | % | **RMB'000** | **%** | RMB'000 | % |
| | **(Unaudited)** | | (Unaudited) | | **(Unaudited)** | | (Unaudited) | |
| Mainland China | **30,100,098** | **57.9** | 28,823,107 | 63.7 | **57,060,587** | **59.6** | 50,765,210 | 63.7 |
| Rest of the world (Note (a)) | **21,851,031** | **42.1** | 16,412,366 | 36.3 | **38,647,365** | **40.4** | 28,882,625 | 36.3 |
| | **51,951,129** | | 45,235,473 | | **95,707,952** | | 79,647,835 | |

Note:

(a) Revenues outside mainland China are mainly from India, Indonesia and Western Europe.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 6 Segment information (continued)

The major customers which contributed more than 10% of the total revenue of the Group for the three months and six months ended June 30, 2019 and 2018 are listed as below:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **%** | % | **%** | % |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Customer A | **14.3** | 13.4 | **12.7** | 12.4 |

All the revenues derived from other single external customer were less than 10% of the Group's total revenues during the three months and six months ended June 30, 2019.

## 7 Other income

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Government grants | **173,952** | 28,814 | **178,314** | 117,095 |
| Value-added tax and other tax refunds | **15,157** | 1,067 | **15,268** | 13,436 |
| Dividend income | **116,657** | 119,975 | **124,284** | 119,975 |
| Investment income from short-term investments measured at fair value through profit or loss | **84,528** | 51,955 | **132,675** | 95,390 |
| Investment income from short-term investments measured at amortized cost | **—** | 5,504 | **—** | 19,645 |
| Others | **16,059** | — | **16,059** | — |
| | **406,353** | 207,315 | **466,600** | 365,541 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 8 Other (losses)/gains, net

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Remeasurement of investments transferring from financial asset measured at fair value through profit or loss to investments accounted for using the equity method | — | — | — | 126,614 |
| Net (losses)/gains on disposals of long-term investments measured at fair value through profit or loss | — | (10,310) | — | 20,763 |
| Losses on disposal of an investment accounted for using the equity method | — | — | (13,547) | — |
| Foreign exchanges (losses)/gains, net | (12,504) | 74,693 | (6,857) | 46,556 |
| Others | (58,776) | (17,626) | (72,562) | (49,609) |
| | (71,280) | 46,757 | (92,966) | 144,324 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 9 Expenses by nature

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
| Cost of inventories sold | 39,612,082 | 35,821,152 | 73,827,229 | 62,984,283 |
| Provision for impairment of inventories (Note 18) | 1,365,509 | 192,703 | 2,471,384 | 514,468 |
| Royalty fees | 1,238,853 | 1,175,237 | 2,242,245 | 1,956,131 |
| Employee benefit expenses (Note (a)) | 1,779,163 | 11,642,896 | 3,818,519 | 13,162,180 |
| Depreciation of property and equipment and right-of-use assets | 219,729 | 52,622 | 429,499 | 95,962 |
| Amortization of intangible assets | 123,140 | 107,609 | 247,787 | 247,727 |
| Promotion and advertising expenses | 680,965 | 786,498 | 977,784 | 1,124,097 |
| Content fees to game developers and video providers | 370,158 | 480,941 | 742,720 | 901,865 |
| Provision for loan receivables | 266,222 | 163,961 | 453,228 | 232,754 |
| Consultancy and professional service fees | 155,198 | 171,839 | 278,447 | 284,980 |
| Cloud service, bandwidth and server custody fees | 454,476 | 398,199 | 946,029 | 733,197 |
| Office rental expenses | — | 126,935 | — | 232,475 |
| Warranty expenses | 728,450 | 822,647 | 1,327,432 | 1,408,892 |

Note:

(a) For the six months ended June 30, 2018, the employee benefit expenses comprise one-off share-based compensation amounting to approximately RMB9,929,765,000, the details of which are presented in Note 24.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 10 Investments accounted for using the equity method

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Investments in associate accounted for using the equity method | | |
| — Listed entities | 5,904,068 | 6,198,681 |
| — Unlisted entities | 3,550,804 | 2,440,557 |
| | 9,454,872 | 8,639,238 |

| | Six months ended June 30, 2019 RMB'000 (Unaudited) | 2018 RMB'000 (Unaudited) |
|---|---|---|
| **At the beginning of the period** | 8,639,238 | 1,710,819 |
| Additions | 987,944 | 5,768,697 |
| Disposals | (88,395) | (100) |
| Share of losses | (157,472) | (112,183) |
| Share of other comprehensive (loss)/income | (14,530) | 111,153 |
| Share of changes of other reserves | 96,842 | 16,839 |
| Dividends from associate | (8,755) | — |
| **At the end of the period** | 9,454,872 | 7,495,225 |

Management has assessed the level of influence that the Group exercises on these associates, with a total carrying amount of RMB9,454,872,000 and RMB8,639,238,000 as of June 30, 2019 and December 31, 2018, respectively, and determined that it has significant influence through the board representation, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 11 Income tax expenses

The income tax expenses of the Group during all the periods presented are analyzed as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Current income tax | **620,313** | 553,562 | **1,271,610** | 948,210 |
| Deferred income tax | **(141,553)** | (277,780) | **(267,454)** | (334,069) |
| **Income tax expenses** | **478,760** | 275,782 | **1,004,156** | 614,141 |

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 fair value gain of Preferred Shares (Note 23) and 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 exempted from BVI income taxes.

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(d) India income tax

The income tax provisions for India entities were calculated at effective tax rates of 30% to 35% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

## 11 Income tax expenses (continued)

Notes (continued):

(e) Preferential EIT rate

Beijing Xiaomi Mobile Software Co., Ltd. was qualified as a "High and New Technology Enterprise", and enjoys a preferential income tax rate of 15% for the six months ended June 30, 2018. In the third quarter of 2018, Beijing Xiaomi Mobile Software Co., Ltd. was qualified as a "Key Software Enterprise", and it enjoys a preferential income tax rate of 10% for the six months ended June 30, 2019.

(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 was accrued as of the end of each reporting period.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 12 Earnings/(loss) per share

On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of United States dollar ("**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 three months and six months ended June 30, 2018 has been retrospectively adjusted.

### (a) Basic

Basic earnings per share for the three months and six months ended June 30, 2019 and 2018 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Net profit attributable to the owners of the Company | **1,951,956** | 14,651,318 | **5,077,915** | 7,646,195 |
| Weighted average number of ordinary shares in issue (Note) (thousand shares) | **23,770,504** | 10,398,712 | **23,727,744** | 10,080,295 |
| Basic earnings per share (Note) (expressed in RMB per share) | **0.082** | 1.409 | **0.214** | 0.759 |

Note: Weighted average number of ordinary shares in issue and basic earnings per share were calculated taken into account the effect of the Share Subdivision.

As of June 30, 2019, 24,000,000 ordinary shares were issued to several employees. However, the shareholders' rights of these shares were restricted and would be vested over certain service periods. Accordingly, these shares were accounted for as restricted stock units (RSUs). The Group did not include these ordinary shares in the calculation of basic earnings per share for the three months and six months ended June 30, 2019 and 2018 as these shares are not considered outstanding for earnings per share calculation purposes.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 12 Earnings/(loss) per share (continued)

### (b) Diluted

Diluted earnings or loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the three months and six months ended June 30, 2019, the share options and RSUs granted by the Company's subsidiaries and associates had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted earnings or loss per share.

For the three months and six months ended June 30, 2018, diluted loss per share was calculated by considering that (i) the share options and most RSUs were not dilutive potential ordinary shares as they could not be exercised and settled until the Company completes its qualified public offering ("IPO") or approved by the board and such contingent events had not taken place; (ii) the impact of share options of Xiaomi Finance Inc., a wholly owned subsidiary of the Company ("**Xiaomi Finance**") granted to Lei Jun were not dilutive, as Xiaomi Finance was in loss position for the three months and six months ended June 30, 2018; (iii) the Preferred Shares issued by the Company were assumed to have been converted into ordinary shares and the net profit attributable to the owners of the Company was adjusted to eliminate the fair value gain of Preferred Shares, they were included in the diluted weighted average number of ordinary shares calculation, as their effect would have been dilutive.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 12 Earnings/(loss) per share (continued)

### (b) Diluted (continued)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Net profit attributable to the owners of the Company | **1,951,956** | 14,651,318 | **5,077,915** | 7,646,195 |
| Less: Fair value gain of Preferred Shares | **—** | (22,532,721) | **—** | (12,461,345) |
| Net profit/(loss) used to determine diluted earnings/(loss) per share | **1,951,956** | (7,881,403) | **5,077,915** | (4,815,150) |
| Weighted average number of ordinary shares in issue (Note) (thousand shares) | **23,770,504** | 10,398,712 | **23,727,744** | 10,080,295 |
| Adjustments for RSUs and share options granted to employees (Note) (thousand shares) | **905,405** | 22,456 | **962,640** | 22,456 |
| Adjustments for Preferred Shares (Note) (thousand shares) | **—** | 10,504,922 | **—** | 10,504,922 |
| Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (Note) (thousand shares) | **24,675,909** | 20,926,090 | **24,690,384** | 20,607,673 |
| Diluted earnings/(loss) per share (Note) (expressed in RMB per share) | **0.079** | (0.377) | **0.206** | (0.234) |

Note: Weighted average number of ordinary shares in issue, adjustments for RSUs and share options granted to employees, adjustments for Preferred Shares, weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share and diluted earnings/(loss) per share were calculated taken into account the effect of the Share Subdivision.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 13 Property and equipment

| | Electronic equipment RMB'000 | Office equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress (Note) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **(Unaudited)** | | | | | |
| **Six months ended June 30, 2019** | | | | | |
| Opening net book amount | 263,124 | 18,305 | 243,553 | 4,543,071 | 5,068,053 |
| Currency translation differences | 438 | 129 | (1,530) | 3 | (960) |
| Additions | 120,961 | 500 | 78,927 | 857,089 | 1,057,477 |
| Disposals/transfer | (7,449) | (10,823) | — | (64,117) | (82,389) |
| Depreciation charge | (60,249) | (1,558) | (89,250) | — | (151,057) |
| **Closing net book amount** | 316,825 | 6,553 | 231,700 | 5,336,046 | 5,891,124 |
| **At June 30, 2019** | | | | | |
| Cost | 717,399 | 21,144 | 631,398 | 5,336,046 | 6,705,987 |
| Accumulated depreciation | (400,574) | (14,591) | (399,698) | — | (814,863) |
| **Net book amount** | 316,825 | 6,553 | 231,700 | 5,336,046 | 5,891,124 |
| **(Unaudited)** | | | | | |
| **Six months ended June 30, 2018** | | | | | |
| Opening net book amount | 124,927 | 2,447 | 129,737 | 1,473,761 | 1,730,872 |
| Currency translation differences | (285) | 326 | (113) | — | (72) |
| Additions | 117,352 | 13,539 | 128,044 | 547,650 | 806,585 |
| Disposals/transfer | (284) | (1) | — | (46,983) | (47,268) |
| Depreciation charge | (34,314) | (1,426) | (60,222) | — | (95,962) |
| **Closing net book amount** | 207,396 | 14,885 | 197,446 | 1,974,428 | 2,394,155 |
| **At June 30, 2018** | | | | | |
| Cost | 534,941 | 28,001 | 454,753 | 1,974,428 | 2,992,123 |
| Accumulated depreciation | (327,545) | (13,116) | (257,307) | — | (597,968) |
| **Net book amount** | 207,396 | 14,885 | 197,446 | 1,974,428 | 2,394,155 |

Note: Construction in progress as of June 30, 2019 and June 30, 2018 mainly comprises new office buildings being constructed in mainland China.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 14 Intangible assets

| | Goodwill RMB'000 | License RMB'000 | Trademarks, patents and domain name RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **(Unaudited)** | | | | | |
| **Six months ended June 30, 2019** | | | | | |
| Opening net book amount | 282,090 | 1,012,413 | 667,919 | 98,770 | 2,061,192 |
| Currency translation differences | — | 20 | 175 | 416 | 611 |
| Additions | — | 17,458 | 6,092 | 9,122 | 32,672 |
| Disposals | (33,923) | — | (9,506) | (233) | (43,662) |
| Amortization charge | — | (165,899) | (59,275) | (22,613) | (247,787) |
| **Closing net book amount** | 248,167 | 863,992 | 605,405 | 85,462 | 1,803,026 |
| **At June 30, 2019** | | | | | |
| Cost | 248,167 | 1,425,678 | 1,076,736 | 233,880 | 2,984,461 |
| Accumulated amortization | — | (561,686) | (471,331) | (148,418) | (1,181,435) |
| **Net book amount** | 248,167 | 863,992 | 605,405 | 85,462 | 1,803,026 |
| **(Unaudited)** | | | | | |
| **Six months ended June 30, 2018** | | | | | |
| Opening net book amount | 248,167 | 1,279,951 | 723,205 | 23,029 | 2,274,352 |
| Currency translation differences | — | — | (17,992) | (1,509) | (19,501) |
| Additions | 33,923 | 1,096 | 82,027 | 59,459 | 176,505 |
| Disposals | — | (7,190) | — | — | (7,190) |
| Amortization charge | — | (166,410) | (66,251) | (15,066) | (247,727) |
| **Closing net book amount** | 282,090 | 1,107,447 | 720,989 | 65,913 | 2,176,439 |
| **At June 30, 2018** | | | | | |
| Cost | 282,090 | 1,337,591 | 1,068,187 | 167,020 | 2,854,888 |
| Accumulated amortization | — | (230,144) | (347,198) | (101,107) | (678,449) |
| **Net book amount** | 282,090 | 1,107,447 | 720,989 | 65,913 | 2,176,439 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 15 Investments

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| **Current assets** | | |
| Short-term investments measured at fair value through profit or loss (Note (a)) | 13,122,294 | 6,648,526 |
| **Non-current assets** | | |
| Long-term investments measured at fair value through profit or loss | | |
| — Equity investments | 8,129,334 | 7,629,929 |
| — Preferred shares investments (Note (b)) | 11,066,210 | 11,006,279 |
| | 19,195,544 | 18,636,208 |

Notes:

(a) Represents RMB-denominated wealth management products whose returns are not guaranteed.

(b) For the six months ended June 30, 2019, the Group made aggregate preferred shares investments of RMB1,240,753,000. These investees are principally engaged in sales of goods and provision of internet services.

All of these investments are convertible redeemable preferred shares and 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.

The conversion of the preference shares in Ninebot Limited and Shanghai Sunmi Technology Co., Ltd. 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 10).

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 15 Investments (continued)

### Amounts recognized in profit or loss

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Fair value changes on equity investments | (994,675) | 98,853 | 1,530,746 | 185,904 |
| Fair value changes on preferred shares investments | 292,026 | 407,209 | 378,022 | 2,071,372 |
| Fair value changes on short-term investments measured at fair value through profit or loss | 31,996 | 20,848 | 53,294 | 32,502 |
| | (670,653) | 526,910 | 1,962,062 | 2,289,778 |

## 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 June 30, | As of December 31, |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| **Trade receivables** | | |
| Up to 3 months | 6,356,745 | 5,094,390 |
| 3 to 6 months | 675,754 | 392,868 |
| 6 months to 1 year | 287,213 | 116,279 |
| 1 to 2 years | 60,980 | 16,630 |
| Over 2 years | 50,874 | 46,873 |
| | 7,431,566 | 5,667,040 |
| Less: allowance for impairment | (94,375) | (68,597) |
| | 7,337,191 | 5,598,443 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 16 Trade receivables (continued)

Majority of the Group's trade receivables were denominated in RMB and India Rupees.

Trade receivables balances as of June 30, 2019 and December 31, 2018 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 expected credit losses also incorporate forward looking information. As of June 30, 2019, insignificant amount of impairment provision was recognized based on the expected credit losses model.

## 17 Prepayments and other receivables

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties | 9,109,755 | 10,043,378 |
| Recoverable value-added tax and other taxes | 6,227,978 | 7,811,161 |
| Prepayments to suppliers | 800,179 | 467,418 |
| Deposits to suppliers | 1,006,241 | 569,598 |
| Receivables from market development fund | 485,327 | 822,809 |
| Prepaid fees for establishing loan facilities and other prepaid expenses | 266,593 | 228,197 |
| Receivables from import and export agents | 27,773 | 52,263 |
| Receivables from employees related to Employee Fund (Note 24) | 107,850 | 110,950 |
| Interest receivables | 197,066 | 231,819 |
| Receivables from disposal of investments | 23,154 | 35,226 |
| Loans to related parties | 27,287 | 7,979 |
| Others | 499,347 | 534,148 |
| | 18,778,550 | 20,914,946 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 18 Inventories

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Raw materials | 6,780,479 | 7,343,118 |
| Finished goods | 15,811,853 | 19,112,105 |
| Work in progress | 2,247,793 | 2,068,834 |
| Spare parts | 1,478,676 | 1,156,825 |
| Others | 1,806,344 | 1,651,854 |
| | 28,125,145 | 31,332,736 |
| Less: provision for impairment (Note (a)) | (1,450,136) | (1,852,051) |
| | 26,675,009 | 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 statement. The provision for impairment of inventory amounted to RMB2,471,384,000 and RMB514,468,000 for the six months ended June 30, 2019 and 2018, respectively.

## 19 Other non-current assets

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Right-of-use assets (Note 30) | 4,326,596 | — |
| Long-term bank deposit | 201,106 | 992 |
| Investment properties | 74,080 | — |
| Others | 97,582 | 94,493 |
| | 4,699,364 | 95,485 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 20 Capital and reserves

### (a) Share capital

**Authorized:**

As of January 1, 2019 and June 30, 2019, 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, 2019** | 23,626,423 | 58 | 377 | 43,851,282 |
| Exercise of share options and RSUs (Note 24) | 432,243 | 1 | 7 | 816,238 |
| Shares repurchased and cancelled | (19,972) | — | — | (171,002) |
| Release of ordinary shares from Share Scheme Trusts (i) | — | — | — | 43,414 |
| **As of June 30, 2019 (unaudited)** | 24,038,694 | 59 | 384 | 44,539,932 |

Note:

(i) During the six months ended June 30, 2019, the Company issued ordinary shares with respect to the share options under the share option scheme 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").

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 20 Capital and reserves (continued)

### (b) Treasury shares

| | Number of shares '000 | Amounts RMB'000 |
|---|---|---|
| As of January 1, 2019 | — | — |
| Shares repurchased | 117,900 | 982,910 |
| Shares cancelled | (19,972) | (171,002) |
| As of June 30, 2019 (unaudited) | 97,928 | 811,908 |

During the six months ended June 30, 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 |
| | 117,900 | | | 1,125,141,551 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 21 Borrowings

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| **Included in non-current liabilities** | | |
| Asset-backed securities (Note (a)) | 916,138 | 2,752,815 |
| Fund raised through trusts (Note (b)) | 870,000 | — |
| Secured borrowings (Note (c)) | 1,906,303 | 1,260,941 |
| Unsecured borrowings (Note (d)) | 3,407,482 | 3,842,387 |
| | 7,099,923 | 7,856,143 |
| **Included in current liabilities** | | |
| Asset-backed securities (Note (a)) | 3,045,000 | 586,282 |
| Fund raised through trusts (Note (b)) | — | 648,390 |
| Unsecured borrowings (Note (d)) | 3,634,136 | 1,840,522 |
| | 6,679,136 | 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 June 30, 2019, the total ABS amounting to RMB3,961,138,000 (December 31, 2018: RMB3,339,097,000) bore interest at 5.1%-7.7% per annum.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of June 30, 2019, the fund raised through trust amounting to RMB870,000,000 (December 31, 2018: RMB648,390,000) bore interest at 7.3%-8.0% per annum in 2019. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2020 and 2021. During the six months ended June 30, 2019, short-term fund raised through trusts amounting to RMB648,390,000 was repaid by the Group.

(c) As of June 30, 2019, RMB1,906,303,000 (December 31, 2018: RMB1,260,941,000) of long-term borrowings were secured by construction in progress and land use rights amounting to approximately RMB4,082,853,000 (December 31, 2018: RMB4,082,853,000). The interest rate of these borrowings was 4.66%-4.9% per annum. RMB199,507,000 of these borrowings should be repaid by the Group in 2032, and the rest should be repaid in 2027.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 21 Borrowings (continued)

Notes (continued):

(d) As of June 30, 2019, the Group had US$500,000,000 (equivalent to approximately RMB3,437,350,000) 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 RMB6,874,700,000) including US$500,000,000 (equivalent to approximately RMB3,437,350,000) term loan and US$500,000,000 (equivalent to approximately RMB3,437,350,000) revolving loan, which should be repaid by the Group on July 25, 2020.

The Group had RMB473,770,000 (December 31, 2018: RMB305,517,000) unsecured borrowings with interest rate 4.35% per annum, RMB650,855,000 (December 31, 2018: RMB509,891,000) unsecured borrowings with interest rate 4.2% per annum, RMB140,000,000 (December 31, 2018: RMB450,000,000) unsecured borrowings with interest rate 6.960% per annum, RMB1,290,700,000 (December 31, 2018: nil) unsecured borrowings with interest rate 4.263% per annum and RMB178,811,000 (December 31, 2018: nil) unsecured borrowings with interest rate 4.35%. All of these borrowings should be repaid by the Group in 2019.

The Group had RMB900,000,000 (December 31, 2018: nil) of short-term borrowings with interest rate around 6% per annum secured by intra-group companies, which should be repaid by the Group in 2019 and 2020.

For the six months ended June 30, 2019, the interest rate of the interest-bearing liabilities ranges from 4.2% to 8.0% per annum.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 22 Deferred income tax

The amount of offsetting deferred income tax assets and liabilities is RMB59,582,000 as of June 30, 2019 (June 30, 2018: RMB93,732,000).

The gross movement on the deferred income tax assets is as follows:

| | Six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **At the beginning of the period** | **1,405,995** | 721,389 |
| Credited to the consolidated income statement | **214,224** | 319,271 |
| **At the end of the period** | **1,620,219** | 1,040,660 |

The gross movement on the deferred income tax liabilities is as follows:

| | Six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **At the beginning of the period** | **(871,395)** | (1,148,464) |
| Credited to the consolidated income statement | **53,230** | 14,798 |
| Acquisition of a subsidiary | **—** | (3,550) |
| **At the end of the period** | **(818,165)** | (1,137,216) |

The Group only recognizes deferred income tax assets for cumulative tax losses if it is probable that future taxable amounts will be available to utilise those tax losses. Management will continue to assess the recognition of deferred income tax assets in future reporting periods. As of June 30, 2019 and December 31, 2018, the Group did not recognize deferred income tax assets of RMB338,022,000 and RMB520,995,000, in respect of deductible temporary differences and cumulative losses amounting to RMB1,555,798,000 and RMB2,293,425,000, respectively, that can be carried forward against future taxable income.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 23 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 in the six months ended June 30, 2018 is set out as below:

| | RMB'000 |
|---|---|
| **(Unaudited)** | |
| **At January 1, 2018** | 161,451,203 |
| Changes in fair value | (12,461,345) |
| Currency translation differences | 1,574,036 |
| **At June 30, 2018** | 150,563,894 |

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 INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 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 approved was 2,512,694,900 as of June 30, 2019 and December 31, 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 June 30, 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 24 Share-based payments (continued)

### 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, 2019 | 1,433,597,913 | 0.10 |
| Granted during the period | — | — |
| Forfeited during the period | (33,925,720) | 0.30 |
| Transferred to Share Scheme Trusts | (13,160,410) | 0.10 |
| Exercised during the period | (223,352,658) | 0.06 |
| Outstanding as of June 30, 2019 (unaudited) | 1,163,159,125 | 0.10 |
| Exercisable as of June 30, 2019 (unaudited) | 524,168,465 | 0.12 |
| Outstanding as of January 1, 2018 (Note (a)) | 189,755,311 | 1.05 |
| Granted during the period (Note (a)) | 42,500,561 | 1.98 |
| Forfeited during the period (Note (a)) | (1,888,180) | 3.33 |
| Effect of Share Subdivision (Note (b)) | 2,073,309,228 | |
| Outstanding as of June 30, 2018 (unaudited) | 2,303,676,920 | 0.12 |
| Exercisable as of June 30, 2018 (unaudited) | 1,388,226,909 | 0.05 |

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 5.73 years and 6.60 years as of June 30, 2019 and December 31, 2018, respectively.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 24 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:

| | Six months ended June 30, 2018 (Unaudited) |
|---|---|
| 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 were before the effect of the Share Subdivision.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 24 Share-based payments (continued)

### Pre-IPO ESOP (continued)

**RSUs granted to employees**

Movements in the number of RSUs granted to the Company's employees and the respective weighted-average grant date fair value are as follows:

| | Number of RSUs | Weighted average grant date fair value per RSU (US$) |
|---|---|---|
| Outstanding as of January 1, 2019 | 207,161,980 | 0.23 |
| Exercised during the period | (207,161,980) | 0.23 |
| Outstanding as of June 30, 2019 (unaudited) | — | — |
| Vested as of June 30, 2019 (unaudited) | — | — |
| Outstanding as of January 1, 2018 (Note (a)) | 24,492,747 | 2.94 |
| Forfeited during the period (Note (a)) | (3,776,549) | 6.36 |
| Effect of Share Subdivision (Note (b)) | 186,445,782 | |
| Outstanding as of June 30 , 2018 (unaudited) | 207,161,980 | 0.23 |
| Vested as of June 30, 2018 (unaudited) | 235,327,470 | 0.28 |

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.

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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 24 Share-based payments (continued)

### Pre-IPO ESOP (continued)

**RSUs granted to employees (continued)**

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statements for Pre-IPO ESOP granted to the Group's employees are RMB955,383,000 and RMB1,042,443,000 for the six months ended June 30, 2019 and 2018, respectively.

**Share options 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 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. Accordingly, RMB102,608,000 was recognized as share-based compensation expenses on June 17, 2018 by the Group.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 24 Share-based payments (continued)

### Share Award Scheme

**RSUs granted to employees**

Movements in the number of RSUs granted to the Company's employees and the respective weighted average grant date fair value are as below (all after the Share Subdivision):

| | Number of RSUs | Weighted average grant date fair value per RSU (US$) |
|---|---|---|
| Outstanding as of January 1, 2019 | — | — |
| Granted during the period | 22,466,301 | 1.45 |
| Forfeited during the period | (696,256) | 1.45 |
| Exercised during the period | (1,728,000) | 1.45 |
| Outstanding as of June 30, 2019 (unaudited) | 20,042,045 | 1.45 |
| Exercisable as of June 30, 2019 (unaudited) | — | — |

The weighted-average remaining contract life for outstanding RSUs was 9.88 years as of June 30, 2019.

The total expenses recognized in the consolidated income statements for RSUs granted to the Group's employees under Share Award Scheme are RMB18,167,000 for the six months ended June 30, 2019.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 24 Share-based payments (continued)

### 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. Thereafter when the employees decide to resign after Lockup Period, the employees can demand the Company to buy back the shares at fair value or continue to hold the shares. Accordingly, the Group granted compound financial instruments to its employees and accounted for it as equity-settled share-based payments and cash-settled share-based payments.

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB44,747,000 and RMB43,351,000 for the six months ended June 30, 2019 and 2018, respectively.

## 25 Other non-current liabilities

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Liabilities to fund investors (Note (a)) | 2,877,204 | 2,823,504 |
| Lease liabilities (Note 30) | 596,794 | — |
| Others | 115,737 | 21,355 |
| | 3,589,735 | 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. Hubei Fund has limited operation during the current period. 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.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 26 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of June 30, 2019 and December 31, 2018, 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 June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Up to 3 months | 47,540,343 | 44,312,748 |
| 3 to 6 months | 909,101 | 1,656,699 |
| 6 months to 1 year | 196,293 | 266,623 |
| 1 to 2 years | 116,442 | 50,350 |
| Over 2 years | 37,076 | 851 |
| | 48,799,255 | 46,287,271 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 27 Other payables and accruals

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Amounts collected for third parties | 1,554,677 | 1,628,230 |
| Payroll and welfare payables | 670,313 | 795,593 |
| Deposits payable | 1,052,602 | 953,132 |
| Employee fund (Note 24) | 592,511 | 553,108 |
| Accrual expenses | 734,400 | 499,295 |
| Payables for construction cost | 555,835 | 619,935 |
| Payables for investments | 2,733 | 222,382 |
| Other taxes payables | 579,020 | 192,182 |
| Lease liabilities (Note 30) | 370,317 | — |
| Others | 893,863 | 848,913 |
| | 7,006,271 | 6,312,770 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 28 Contingencies

The Group did not have any material contingent liabilities as of June 30, 2019 and December 31, 2018.

## 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 June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Property and equipment | 3,423,576 | 1,825,343 |
| Intangible assets | 34,184 | 57,778 |
| Long-term investments | 139,116 | 137,176 |
| Land use right | 200,000 | — |
| | 3,796,876 | 2,020,297 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 29 Commitments (continued)

### (b) Operating lease commitments

The Group leases offices and servers under non-cancellable lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| Not later than 1 year | 233,514 | 560,926 |
| Later than 1 year and not later than 5 years | — | 385,038 |
| Later than 5 years | — | 83,276 |
| | 233,514 | 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 30 for further information.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 30 Leases

| | As of June 30, 2019 RMB'000 (Unaudited) | As of January 1, 2019 RMB'000 (Unaudited) |
|---|---|---|
| *(i) The consolidated balance sheet shows the following amounts relating to leases:* | | |
| **Right-of-use assets (Note(a))** | | |
| Land use rights | 3,350,084 | 3,389,731 |
| Properties | 964,193 | 859,454 |
| Other assets | 12,319 | 32,754 |
| | 4,326,596 | 4,281,939 |
| **Lease liabilities (Note(b))** | | |
| Current | (370,317) | (285,402) |
| Non-current | (596,794) | (573,431) |
| | (967,111) | (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 INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 30 Leases (continued)

| | Three months ended June 30, 2019 RMB'000 (Unaudited) | Six months ended June 30, 2019 RMB'000 (Unaudited) |
|---|---|---|
| *(ii) The consolidated income statement shows the following amounts relating to leases:* | | |
| Depreciation charge of right-of-use assets | 141,647 | 278,442 |
| Interest expense (included in finance income/ (expense), net) | 11,438 | 20,737 |
| Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses) | 108,515 | 245,074 |
| | 261,600 | 544,253 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 31 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.

### (a) Significant transactions with related parties

| | Six months ended June 30, | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **(i) Sales of goods and services** | | |
| Associates of the Group | **510,015** | 410,932 |
| Associates of Lei Jun | **2,894** | 13,775 |
| | **512,909** | 424,707 |
| **(ii) Purchases of goods and services** | | |
| Associates of the Group | **11,559,119** | 8,203,327 |
| Associates of Lei Jun | **321** | 670 |
| | **11,559,440** | 8,203,997 |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 31 Related party transactions (continued)

### (b) Year/period end balances with related parties

| | As of June 30, 2019 RMB'000 (Unaudited) | As of December 31, 2018 RMB'000 (Audited) |
|---|---|---|
| **(i) Trade receivables from related parties** | | |
| Associates of the Group | 454,181 | 361,792 |
| Associates of Lei Jun | 1,837 | 2,816 |
| | 456,018 | 364,608 |
| **(ii) Trade payables to related parties** | | |
| Associates of the Group | 4,996,255 | 4,004,778 |
| Associates of Lei Jun | 2,614 | 1,916 |
| | 4,998,869 | 4,006,694 |
| **(iii) Other receivables from related parties** | | |
| Associates of the Group | 258,709 | 243,126 |
| **(iv) Other payables to related parties** | | |
| Associates of the Group | 567,885 | 770,032 |
| Controlled by a director | 77,331 | 76,966 |
| Associates of Lei Jun | 7,513 | 7,652 |
| | 652,729 | 854,650 |
| **(v) Prepayments** | | |
| Associates of the Group | 126,979 | 88,289 |

All the balances with related parties above were unsecured and repayable within one year.

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 31 Related party transactions (continued)

### (c) Loans to related parties

| | Six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| **Loans to associates:** | | |
| At the beginning of the period | 7,979 | 62,143 |
| Loans advanced | 18,758 | 50,000 |
| Loans repaid | — | (53,874) |
| Interest charged | 550 | 1,448 |
| Interest received | — | (1,195) |
| At the end of the period | 27,287 | 58,522 |

### (d) Loans from related parties

| | Six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| **Loans from associates:** | | |
| At the beginning of the period | — | 51,336 |
| Loans repaid | — | (50,958) |
| Interest charged | — | 146 |
| Interest paid | — | (855) |
| Currency translation differences | — | 331 |
| At the end of the period | — | — |

# NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

## 31 Related party transactions (continued)

### (e) Key management compensation

| | Six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Salaries | 5,817 | 6,012 |
| Discretionary bonuses | 2,070 | — |
| Share-based compensation | 222,469 | 10,319,403 |
| Employer's contribution to pension schedule | 559 | 390 |
| | 230,915 | 10,325,805 |

## 32 Events after the reporting period

The Company repurchased 2,490,000 and 5,120,000 Class B ordinary shares of the Company on July 2, 2019 and July 3, 2019, representing approximately 0.010% and 0.021% of the issued total share capital of the Company as at the respective transaction days. The total considerations were approximately HK$24,902,000 and HK$49,939,000, respectively.

# DEFINITIONS

| | |
|---|---|
| **"affiliate"** | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| **"Articles" or "Articles or Association"** | the articles of association of the Company adopted on June 17, 2018 with effect from Listing, as amended from time to time, |
| **"Beijing Digital Technology"** | Beijing Xiaomi Digital Technology Co. Ltd.* (北京小米數碼科技有限公司), a limited liability company established under the laws of mainland China on December 21, 2010 and our indirect wholly-owned subsidiary |
| **"Beijing Duokan"** | Beijing Doukan Technology Co., Ltd.* (北京多看科技有限公司), a limited liability company established under the laws of mainland China on July 1, 2014 and our Consolidated Affiliated Entity |
| **"Beijing Electronic Software"** | Beijing Xiaomi Electronic Software Co., Ltd.* (北京小米電子軟件技術有限公司), a limited liability company established under the laws of mainland China on July, 2014 and our Consolidated Affiliated Entity |
| **"Beijing Wali Culture"** | Beijing Wali Culture Communication Co., Ltd.* (北京瓦力文化傳播有限公司), a limited liability company established under the laws of mainland China on May 8, 2014 and our Consolidated Affiliated Entity |
| **"Beijing Wali Internet"** | Beijing Wali Internet Technologies Co., Ltd.* (北京瓦力網絡科技有限公司), a limited liability company established under the laws of mainland China on June 1, 2009 and our Consolidated Affiliated Entity |
| **"Beijing Wenmi"** | Beijing Wenmi Culture Co., Ltd* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our wholly-owned subsidiary |

| | |
|---|---|
| **"Board"** | our Board of Directors |
| **"BVI"** | the British Virgin Islands |
| **"CG Code"** | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules |
| **"Class A Shares"** | class A ordinary shares of 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, in which case they shall be entitled to one vote per share |
| **"Class B Shares"** | class B ordinary shares of 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 |
| **"Co-founder"** | Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping |
| **"Company", "our Company", or "the Company"** | Xiaomi Corporation 小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010 |
| **"Companies Ordinance"** | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| **"Consolidated Affiliated Entities"** | the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries (each a "**Consolidated Affiliated Entity**") |

# DEFINITIONS

| | |
|---|---|
| **"Controlling Shareholder(s)"** | has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interested in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited |
| **"Director(s)"** | the director(s) of the Company |
| **"Group", "our Group", or "the Group"** | the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the contractual arrangements) from time to time |
| **"Hong Kong" or "HK"** | the Hong Kong Special Administrative Region of the People's Republic of China |
| **"Hong Kong dollars" or "HK dollars" or "HK$"** | Hong Kong dollars, the lawful currency of Hong Kong |
| **"Listing"** | the listing of the Class B Shares on the Main Board of the Stock Exchange |
| **"Listing Rules"** | the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| **"Listing Date"** | July 9, 2018, the date on which the Shares were listed on the Stock Exchange |
| **"Main Board"** | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange |
| **"Memorandum of Association"** | the memorandum of association of the Company adopted on June 17, 2018, as amended from time to time |

| | |
|---|---|
| **"Model Code"** | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules |
| **"Onshore Holdcos," each a "Onshore Holdco"** | (i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Doukan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, (vii) Beijing Electronic Software and (viii) Youpin Information Technology |
| **"Pinecone International"** | Pinecone International Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on November 7, 2014 and our indirect wholly-owned subsidiary |
| **"Pinecone Share Option Scheme I"** | the share option scheme adopted by Pinecone International on July 30, 2015 as amended from time to time |
| **"Pinecone Share Option Scheme II"** | the share option scheme adopted by Pinecone International on June 17, 2018 as amended from time to time |
| **"Pre-IPO ESOP"** | the pre-IPO employee stock incentive scheme adopted by the Company dated May 5, 2011 and superseded on August 24, 2012, as amended from time to time |
| **"PRC Legal Advisor"** | JunHe LLP |
| **"Prospectus"** | the prospectus of the Company dated June 25, 2018 |
| **"RMB" or "Renminbi"** | Renminbi, the lawful currency of PRC |
| **"Registered Shareholders"** | the registered shareholders of the Onshore Holdcos |
| **"Reporting Period"** | the six months ended June 30, 2019 |

# DEFINITIONS

| | |
|---|---|
| **"Reserved Matters"** | those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company's auditors, and (iv) the voluntary liquidation or winding-up of the Company |
| **"Rigo Design"** | Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計(北京)有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity |
| **"RMB" or "Renminbi"** | Renminbi, the lawful currency of mainland China |
| **"SFO"** | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| **"Share(s)"** | the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires |
| **"Share Award Scheme"** | the share award scheme adopted by the Company on June 17, 2018 |
| **"Shareholder(s)"** | holder(s) of the Share(s) |
| **"Stock Exchange"** | The Stock Exchange of Hong Kong Limited |
| **"subsidiary(ies)"** | has the meaning ascribed to it in section 15 of the Companies Ordinance |
| **"substantial shareholder"** | has the meaning ascribed to it in the Listing Rules |

| | |
|---|---|
| **"Tianjin Commercial Factoring"** | Xiaomi Commercial Factoring (Tianjin) Co., Ltd* (小米商業保理(天津)有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary |
| **"United States" or "US"** | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| **"US$"** | United States dollars, the lawful currency of the United States |
| **"weighted voting rights"** | has the meaning ascribed to it in the Listing Rules |
| **"WFOEs", each a "WFOE"** | Beijing Baien, Xiaomi Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications and Xiaomi Youpin Technology |
| **"WVR Beneficiary"** | has the meaning ascribed to it in the Listing Rules |
| **"Xiaomi Communications"** | Xiaomi Communications Co., Ltd* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary |
| **"Xiaomi Finance"** | Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary |
| **"Xiaomi Inc."** | Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland china on March 3, 2010 and our Consolidated Affiliated Entity |
| **"Xiaomi Pictures"** | Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity |

# DEFINITIONS

| | |
|---|---|
| **"Xiaomi Youpin Technology"** | Xiaomi Youpin Technology Co. Ltd.* (小米有品科技有限公司), a limited liability company established under the laws of mainland China on May 8, 2018 and our indirect wholly-owned subsidiary |
| **"XMF Share Option Scheme I"** | the first share option scheme adopted by Xiaomi Finance on June 17, 2018, as amended from time to time |
| **"XMF Share Option Scheme II"** | the second share option scheme adopted by Xiaomi Finance on June 17, 2018 |
| **"%"** | per cent |

* *For identification purpose only.*

MI