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XIAOMI CORPORATION

小米集团

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

(Stock Code: 1810)

RESULTS ANNOUNCEMENT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the three and six months ended June 30, 2020. These interim results have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, and reviewed by PricewaterhouseCoopers, the independent auditor of the Company, in accordance with International Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity”, issued by the International Auditing and Assurance Standards Board. The interim results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

In this announcement, “we”, “us”, and “our” refer to the Company and where the context otherwise requires, the Group.

KEY HIGHLIGHTS

	Unaudited				
	Three months ended				
	June 30, 2020	June 30, 2019	Year- on-year change	March 31, 2020	Quarter- on-quarter change
	(Renminbi (“ RMB ”) in millions, unless specified)				
Revenue	53,537.8	51,951.1	3.1%	49,702.2	7.7%
Gross profit	7,701.4	7,258.7	6.1%	7,558.5	1.9%
Operating profit	5,413.0	2,336.1	131.7%	2,323.1	133.0%
Profit before income tax	4,867.8	2,434.3	100.0%	2,454.0	98.4%
Profit for the period	4,493.5	1,955.6	129.8%	2,159.8	108.0%
Non-IFRS measure:					
Adjusted Net Profit	3,373.2	3,635.1	-7.2%	2,300.5	46.6%

**Unaudited
Six months ended**

	June 30, 2020	June 30, 2019	Year- on-year change
	(RMB in millions, unless specified)		
Revenue	103,240.0	95,708.0	7.9%
Gross profit	15,259.9	12,474.3	22.3%
Operating profit	7,736.2	5,950.3	30.0%
Profit before income tax	7,321.9	6,151.5	19.0%
Profit for the period	6,653.4	5,147.3	29.3%
Non-IFRS measure: Adjusted Net Profit	5,673.7	5,715.8	-0.7%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

In the first half of 2020, our total revenue amounted to RMB103.2 billion, representing an increase of 7.9% year-over-year; adjusted net profit for the period was RMB5.7 billion. In the second quarter of 2020, our total revenue amounted to RMB53.5 billion, representing an increase of 3.1% year-over-year; adjusted net profit was RMB3.4 billion. Despite the impact of COVID-19 and macroeconomic uncertainties, our business continued to expand, demonstrating the strength and resilience of our business model.

In the second quarter of 2020, we upheld a top four position in terms of global smartphone shipments, according to Canalys. In June 2020, the global monthly active users (“MAU”) of MIUI reached 343.5 million, an increase of 23.3% year-over-year.

In the second quarter of 2020, our IoT platform continued to expand in scale, maintaining its global leadership. As of June 30, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached 271.0 million, an increase of 38.3% year-over-year. Our AI assistant “小愛同學” had 78.4 million MAU in June 2020, an increase of 57.1% year-over-year.

Leveraging our diversified geographic presence and business streams, our internet services segment recorded solid growth. Revenue from our internet services segment in the second quarter of 2020 increased by 29.0% year-over-year to RMB5.9 billion.

Our overseas business achieved robust growth against market headwinds and obtained remarkable results across key markets. According to Canalys, in the second quarter of 2020, our smartphone shipments in the European market grew by 64.9% year-over-year, attaining a top three position in terms of market share for the first time. In particular, we upheld our leading position in Spain for the second consecutive quarter, and climbed to a top two position in France.

Our achievements have been globally recognized with awards and accolades. August 2020 marked our second entry into the Fortune Global 500 list, ranking 422nd. In June 2020, we were included in BCG’s “50 Most Innovative Companies 2020” list, ranking 24th. In August 2020, we were named in the “Derwent Top 100 Global Innovators 2020” list, being one of three mainland China companies to make the list.

On Xiaomi’s 10th anniversary, we laid down three guiding principles for our business. Accordingly, we will “never cease to explore and innovate”, “continue to offer products with the best price-to-performance ratio”, and “always make the coolest products”. We will continue to focus on innovation and efficiency to consistently deliver value to our customers. In spite of near-term uncertainties and challenges from the macroeconomic environment, the strength of our vibrant global ecosystem gives us firm confidence in our sustainable growth potential.

2. Smartphones

In the second quarter of 2020, lockdown measures around the world dampened the global smartphone market. For the quarter, revenue from our smartphones segment amounted to RMB31.6 billion, a decrease of 1.2% year-over-year, and we shipped 28.3 million units of smartphones. Driven by the higher proportion of sales from our mid- to high-end smartphones, the average selling price (“ASP”) of our smartphones increased by 11.8% year-over-year and 7.5% quarter-over-quarter. According to Canalys, in the second quarter of 2020, we ranked 4th globally in terms of smartphone shipments, and our market share stood at 10.1%.

In the second quarter of 2020, we further solidified our position in the premium smartphone market. In the mainland China market, during JD.com’s 618 Shopping Festival, our *Redmi K30 Pro* and *Mi 10* were the top two best-selling 5G smartphones. In the overseas markets, shipments of our premium smartphones with retail price of €300 or more went up by 99.2% year-over-year in the second quarter of 2020. On August 11, 2020, we launched our flagship smartphone, *Mi 10 Ultra*, debuting numerous revolutionary features, including a 120x AI super zoom camera, a 120Hz refresh rate with 10-bit color depth, and a triple fast-charging structure including 120W wired, 50W wireless and 10W reverse wireless charging. *Mi 10 Ultra* achieved a DXOMARK score of 130 for overall camera performance, once again ranking our product 1st globally at the time of launch. The launch of *Mi 10 Ultra* reiterates Xiaomi’s relentless pursuit of technological excellence.

We also continued to broaden our smartphone offerings to make 5G technology accessible to the mass market. In May 2020, our Redmi brand unveiled *Redmi 10X 5G* and *Redmi 10X Pro 5G*, bringing cutting-edge dual standby 5G functionality to an affordable RMB1,500 price range. In August 2020, we launched *Redmi K30 Ultra*, sporting all-around premium features with prices starting from only RMB1,999.

To fulfill the needs of global consumers amid macroeconomic uncertainties, in July 2020, we launched the *Redmi 9A* series. Equipped with powerful main features, and priced from only RMB499, our *Redmi 9A* series set a new standard for entry-level smartphones worldwide.

In April 2020, we introduced the Xiaomi Privacy Brand and embedded its key functions into our latest operating system MIUI 12. With a firm commitment to our privacy protection policy, which centers on openness and transparency, minimal data collection, purpose limitation, cybersecurity, censorship, and responsibilities, the features of Xiaomi Privacy Brand will be applied to an array of our products and service offerings.

3. IoT and lifestyle products

In the second quarter of 2020, revenue from our IoT and lifestyle products segment rose by 2.1% year-over-year to RMB15.3 billion. The production, transportation, sales and launch schedule of certain product categories were affected by the pandemic, leading to slower revenue growth.

In the second quarter of 2020, our global TV shipments amounted to 2.8 million units, achieving year-over-year growth despite a decline in the overall TV market. According to All View Cloud (“AVC”), in the second quarter of 2020, our TV shipments in mainland China ranked 1st for the 6th consecutive quarter.

Since July 2020, we introduced two flagship products under the new *Mi TV Master Series*, further expanding our footprint in the premium market. In July 2020, we introduced our first OLED TV, *Mi TV Lux 65” OLED*. Featuring a top-notch OLED display, an AI Master Smart Engine and a 3D spatial sound system, it delivers a superior visual and audio experience. In August 2020, we launched the second ultra high-end TV within the *Mi TV Master Series*, the *Mi TV LUX Transparent Edition*, which is the world’s first mass-produced transparent TV. With an edge-to-edge transparent self-luminous display transmitting images that seem to be suspended in the air, the TV brings an unprecedented visual experience. *Mi TV LUX Transparent Edition* offers a perfect combination of cutting-edge display technology and exquisite industrial design, underscoring our exploration into the future of smart TVs.

With an extensive IoT product range, we were able to quickly adjust our product strategy to evolve around shifting user habits. During the pandemic, a number of our product categories, including kitchenware, small home appliances, and fitness equipment, enjoyed widespread popularity.

Our IoT business also continued to expand in the overseas markets. In the second quarter of 2020, our smart TVs entered into more overseas markets, including Poland, France and Italy. According to AVC, as of the second quarter of 2020, we ranked in the top five globally in terms of smart TV shipments. In July 2020, we held our first global Xiaomi Ecosystem Product Launch to meet the increasing needs of global consumers for our IoT products. During the event, we released a series of new products, including the *Mi Smart Band 5*, *Mi True Wireless Earphones 2 Basic*, and *Mi Electric Scooter Pro 2*, designed in collaboration with the Mercedes-AMG Petronas F1 Team. Separately, in August 2020, we teamed up with Lamborghini to launch the *Ninebot GoKart Pro Lamborghini Edition*. These new product offerings represent our latest efforts to bringing the coolest novelties to Mi fans worldwide.

4. Internet services

In the second quarter of 2020, revenue from our internet services segment amounted to RMB5.9 billion, representing an increase of 29.0% year-over-year, and accounting for 11.0% of our total revenue. We achieved solid growth across our advertising, gaming and other value-added services.

In the second quarter of 2020, the MAU of MIUI increased by 23.3% year-over-year to 343.5 million, while the mainland China MAU of MIUI was 109.7 million.

In the second quarter of 2020, advertising revenue increased by 23.2% year-over-year to RMB3.1 billion, driven by the rapid growth in overseas advertising revenue, as well as the gradual recovery in advertising budgets in mainland China. In the second quarter of 2020, online gaming revenue increased by 54.5% year-over-year to RMB1.0 billion, mainly due to the continued growth of the mobile gaming market in mainland China, and the higher average online gaming spending from our mid- to high-end smartphone users. In the second quarter of 2020, revenue from other value-added services reached RMB1.8 billion, representing a year-over-year growth of 27.0%, mainly driven by the growth in our fintech business, Youpin e-commerce platform, and TV paid subscription services.

In the second quarter of 2020, internet services 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 39.5% year-over-year and accounted for 39.0% of our total internet services revenue.

In the second quarter of 2020, TV internet services revenue grew robustly year-over-year, driven by the expansion of our user base and our broadened TV internet service offerings. In June 2020, MAU of our smart TVs and *Mi Box* reached 32.0 million, an increase of 41.8% year-over-year. As of June 30, 2020, the number of paid subscribers increased by 33.1% year-over-year to 4.0 million. In July 2020, we launched the latest operating system *MIUI for TV 3.0* with an improved user interface, better recommendation algorithms and mobile control features, designed to further enhance our smart TV ecosystem.

In the second quarter of 2020, our Youpin e-commerce platform continued to broaden its high-quality product offerings. The gross merchandise volume (“GMV”) of the platform grew rapidly year-over-year, of which over 75% was derived from non-Xiaomi smartphone users.

In light of the volatile market environment, our fintech business maintained prudent operations and strengthened risk controls towards consumer loans. Meanwhile, we continued to exploit our platform strengths and develop our supply chain finance business. In addition, Airstar Bank, a Hong Kong-based virtual bank, officially commenced operations in June 2020.

In the second quarter of 2020, benefiting from the continuous growth of our smartphone users in Europe and other developed markets, and the consistent enrichment of our internet service offerings, our overseas internet services revenue maintained its rapid growth trajectory.

5. Overseas markets

In the second quarter of 2020, despite the impact of the pandemic, our revenue from overseas markets increased by 10.0% year-over-year to RMB24.0 billion, accounting for 44.9% of our total revenue. According to Canalys, in the second quarter of 2020, our market shares in terms of smartphone shipments ranked among the top five in 50 countries and regions and reached the top three in 25 of these markets.

In the second quarter of 2020, according to Canalys, our smartphone shipments grew by 64.9% year-over-year in Europe, achieving a total market share of 16.8%, and ranking us in the top three for the 1st time. In Western Europe, our smartphone shipments grew 115.9% year-over-year, accounting for a 12.4% market share. In the second quarter of 2020, our smartphone shipments in Spain grew by 150.6% year-over-year, ranking us 1st for the 2nd consecutive quarter with a 36.8% market share. During the quarter, we ranked 2nd in France and 4th in Germany and Italy, respectively, in terms of smartphone shipments. In Eastern Europe, we became the No.1 smartphone company in both Ukraine and Poland in terms of smartphone shipments, with respective market shares of 37.1% and 27.5%. In addition, in the second quarter of 2020, we captured a market share of 30.7% by shipments in the Indian smartphone market. According to IDC, we retained our No.1 position in the Indian smartphone market for the 12th consecutive quarter.

Moreover, we continued our expansion in new markets. According to Canalys, in the second quarter of 2020, our smartphone shipments grew by 99.4%, 66.3% and 113.0% year-over-year in Latin America, the Middle East and Africa, respectively, with our market share ranking among the top four in Latin America and the Middle East, respectively, and the top five in Africa.

During the pandemic, we took initiatives to bolster our global e-commerce channels, resulting in an increase in the proportion of our online sales and improvement in overall efficiency. In addition, we continued to expand our product offerings within telecom operator channels, further strengthening our global retail network.

6. Impact of the COVID-19 outbreak

In the second quarter of 2020, the COVID-19 pandemic affected our global operations to varying degrees. In April and May 2020, several of our key markets implemented strict lockdown measures and our sales were greatly impacted. As business restrictions were gradually lifted, our sales have recovered tangibly. In July 2020, the average daily number of smartphone activations in the overseas markets surpassed the pre-pandemic level recorded in January 2020.

In India, strict lockdown measures were imposed starting in late March and our sales were significantly impacted during the lockdown period. As India gradually lifted the restrictions during the second quarter of 2020, consumer demand started to rebound. However, as the production capacity had not yet returned to the normal level, our sales were still limited by the production constraints. In July 2020, the average daily number of smartphone activations in India returned to 72% of the pre-pandemic level recorded in January 2020. In July 2020,

excluding India, the average daily number of overseas smartphone activations reached 120% of the pre-pandemic level recorded in January 2020.

7. Strategic update

Smartphone x AIoT

“Smartphone x AIoT” is at the core of our strategy. Smartphones will remain as the cornerstone of our business, while our AIoT platform will revolve around smartphones to build up a smart living ecosystem and enlarge our user base. Smartphones combined with our AIoT platform will create multiplier effects to strengthen economic moats for our business. We have seen clear synergistic effects between smartphones and our IoT products. Our data indicates that our smartphone users with connected IoT devices showed a higher smartphone retention rate than users without. Our AIoT platform has also demonstrated user stickiness. For our IoT users as of June 30, 2019, the average number of connected devices increased by over 25% in the subsequent 12 months.

Xiaomi has continued to uphold its leading position in the global AIoT market. As of June 30, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached approximately 271.0 million units, representing a year-over-year increase of 38.3%. The number of users who have five or more devices connected to Xiaomi’s IoT platform (excluding smartphones and laptops) increased to over 5.1 million, representing a year-over-year growth of 63.9%. In June 2020, our AI Assistant (“小愛同學”) had 78.4 million MAU, an increase of 57.1% year-over-year, making it one of the most active AI voice interactive platforms in China. Meanwhile, our *Mi Home* App had 40.8 million MAU, representing a year-over-year increase of 34.1%, and of which non-Xiaomi smartphone users accounted for 67.9%.

We have continued to strengthen the interconnectivity across our products with our “Xiaomi Share” initiative. “Xiaomi Share” supports always-on access to music, video and voice calls when switching across multiple devices. In addition, we developed the multi-screen collaboration function, which supports cross-device photography and document editing. Going forward, we will continue to enhance the connectivity between smart devices, and offer more intelligent user experiences and application scenarios, thereby bringing global Xiaomi users to the forefront of future smart living.

Investments

As of June 30, 2020, we had invested in more than 300 companies with an aggregate book value of RMB36.8 billion, an increase of 28.4% year-over-year. In the second quarter of 2020, we generated net gains on disposal of investments (after tax) of RMB1,157.2 million. We actively invested in supply chain companies to strengthen our partnership with key component suppliers, enhance our sourcing and manufacturing abilities in advanced technology, and facilitate the development of key industries, in particular, those involved in 5G, IoT, AI, semiconductors, advanced manufacturing, and industrial internet. In the first half of 2020, we invested in more than 20 upstream supply chain companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2020 Compared to Second Quarter of 2019

The following table sets forth the comparative figures for the second quarter of 2020 and the second quarter of 2019:

	Unaudited	
	Three months ended	
	June 30,	June 30,
	2020	2019
	(RMB in millions)	
Revenue	53,537.8	51,951.1
Cost of sales	(45,836.4)	(44,692.4)
Gross profit	7,701.4	7,258.7
Selling and marketing expenses	(3,223.7)	(2,295.3)
Administrative expenses	(836.4)	(723.5)
Research and development expenses	(1,958.3)	(1,556.1)
Fair value changes on investments measured at fair value through profit or loss	2,366.2	(670.7)
Share of gains/(losses) of investments accounted for using the equity method	892.6	(12.1)
Other income	183.1	406.4
Other gains/(losses), net	288.1	(71.3)
Operating profit	5,413.0	2,336.1
Finance (expense)/income, net	(545.2)	98.2
Profit before income tax	4,867.8	2,434.3
Income tax expenses	(374.3)	(478.7)
Profit for the period	4,493.5	1,955.6
Non-IFRS measure: Adjusted Net Profit	3,373.2	3,635.1

Revenue

Revenue increased by 3.1% to RMB53.5 billion in the second quarter of 2020 on a year-over-year basis. The following table sets forth our revenue by line of business in the second quarter of 2020 and the second quarter of 2019.

	Unaudited			
	Three months ended		June 30, 2019	
	June 30, 2020		June 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	31,627.5	59.1%	32,021.0	61.6%
IoT and lifestyle products	15,252.9	28.5%	14,944.7	28.8%
Internet services	5,907.6	11.0%	4,580.2	8.8%
Others	749.8	1.4%	405.2	0.8%
Total revenue	<u>53,537.8</u>	<u>100.0%</u>	<u>51,951.1</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 1.2% from RMB32.0 billion in the second quarter of 2019 to RMB31.6 billion in the second quarter of 2020. We sold 28.3 million smartphone units in the second quarter of 2020, compared to 32.1 million units in the second quarter of 2019. The decrease in shipments was mainly due to impact of the pandemic, particularly in the overseas markets. The ASP of our smartphones was RMB1,116.3 per unit in the second quarter of 2020, compared with RMB998.7 per unit in the second quarter of 2019. The increase in ASP was primarily due to the increase in sales of our mid- to high-end smartphone models in the second quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 2.1% from RMB14.9 billion in the second quarter of 2019 to RMB15.3 billion in the second quarter of 2020. The increase in revenue was primarily due to the growth in demand of certain IoT products, such as robot vacuum cleaners and routers. Revenue from smart TVs and laptops decreased by 12.2% from RMB5.5 billion in the second quarter of 2019 to RMB4.8 billion in the second quarter of 2020, mainly due to the lower sales activity caused by the pandemic and the lack of new products for our laptop business.

Internet services

Revenue from our internet services segment increased by 29.0% from RMB4.6 billion in the second quarter of 2019 to RMB5.9 billion in the second quarter of 2020, as all of our major internet service businesses posted solid growth. Our MIUI MAU was 343.5 million in June 2020, an increase of 23.3% from 278.7 million in June 2019.

Others

Other revenue increased by 85.0% from RMB405.2 million in the second quarter of 2019 to RMB749.8 million in the second quarter of 2020, primarily due to the increase in revenue from sale of materials as well as the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 2.6% from RMB44.7 billion in the second quarter of 2019 to RMB45.8 billion in the second quarter of 2020. The following table sets forth our cost of sales by line of business in the second quarter of 2020 and the second quarter of 2019:

	Unaudited			
	Three months ended		June 30, 2019	
	June 30, 2020		June 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	29,336.6	54.8%	29,431.5	56.7%
IoT and lifestyle products	13,515.2	25.2%	13,272.8	25.5%
Internet services	2,347.5	4.4%	1,574.8	3.0%
Others	637.1	1.2%	413.3	0.8%
Total cost of sales	<u>45,836.4</u>	<u>85.6%</u>	<u>44,692.4</u>	<u>86.0%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 0.3% from RMB29.4 billion in the second quarter of 2019 to RMB29.3 billion in the second quarter of 2020, primarily due to the decreased sales of our smartphones in regions impacted by the pandemic.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 1.8% from RMB13.3 billion in the second quarter of 2019 to RMB13.5 billion in the second quarter of 2020, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment increased by 49.1% from RMB1.6 billion in the second quarter of 2019 to RMB2.3 billion in the second quarter of 2020, primarily due to the increased cost of our advertising, gaming and fintech businesses.

Others

Cost of sales related to our others segment increased by 54.1% from RMB413.3 million in the second quarter of 2019 to RMB637.1 million in the second quarter of 2020, primarily due to the increase in cost from sale of materials as well as installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 6.1% from RMB7.3 billion in the second quarter of 2019 to RMB7.7 billion in the second quarter of 2020. The gross profit margin from our smartphones segment decreased from 8.1% in the second quarter of 2019 to 7.2% in the second quarter of 2020, mainly due to enhanced promotional efforts during major online shopping festivals in the second quarter of 2020.

The gross profit margin from our IoT and lifestyle products segment increased from 11.2% in the second quarter of 2019 to 11.4% in the second quarter of 2020. The gross profit margin from our internet services segment decreased from 65.6% in the second quarter of 2019 to 60.3% in the second quarter of 2020, mainly due to higher revenue contribution from our gaming business which have lower gross profit margin than our advertising business, and the decline of gross profit margin from our fintech business. In the second quarter of 2020, due to the pandemic, we increased provision for loss allowance for our fintech business.

As a result of the foregoing and the higher revenue contribution from internet services, our gross profit margin increased from 14.0% in the second quarter of 2019 to 14.4% in the second quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 40.4% from RMB2.3 billion in the second quarter of 2019 to RMB3.2 billion in the second quarter of 2020, primarily due to the increase in promotion and advertising expenses and packing and transportation expenses. Promotion and advertising expenses increased 56.9% from RMB681.0 million in the second quarter of 2019 to RMB1,068.6 million in the second quarter of 2020, primarily due to our elevated marketing efforts for our 5G and premium smartphone models to increase brand awareness. Packaging and transportation expenses increased by 34.3% from RMB648.7 million in the second quarter of 2019 to RMB871.4 million in the second quarter of 2020, primarily due to the growth in the overseas business and the higher international distribution costs during the pandemic.

Administrative Expenses

Our administrative expenses increased by 15.6% from RMB723.5 million in the second quarter of 2019 to RMB836.4 million in the second quarter of 2020, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 25.8% from RMB1.6 billion in the second quarter of 2019 to RMB2.0 billion in the second quarter of 2020, primarily due to the expansion of our research projects and the increase in compensation for 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 loss of RMB670.7 million in the second quarter of 2019 to a gain of RMB2,366.2 million in the second quarter of 2020, primarily due to more fair value gains of equity and preferred share investments in the second quarter of 2020.

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

Our share of gains/(losses) of investments accounted for using the equity method changed from a net loss of RMB12.1 million in the second quarter of 2019 to a net gain of RMB892.6 million in the second quarter of 2020, primarily due to the dilution gain from the initial public offering of Kingsoft Cloud Holdings Limited (Nasdaq: KC) (“**Kingsoft Cloud**”), partially offset by share of loss of iQIYI, Inc. (Nasdaq: IQ) (“**iQIYI**”) in the second quarter of 2020.

Other Income

Our other income decreased by 55.0% from RMB406.4 million in the second quarter of 2019 to RMB183.1 million in the second quarter of 2020, primarily due to the decrease of government grants and lower dividend income received from our investee companies.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from net losses of RMB71.3 million in the second quarter of 2019 to net gains of RMB288.1 million in the second quarter of 2020. This was mainly due to the gain on disposal from an investee company in the second quarter of 2020.

Finance (Expense)/Income, Net

Our net finance (expense)/income changed from net income of RMB98.2 million in the second quarter of 2019 to net expense of RMB545.2 million in the second quarter of 2020, primarily due to the increase in changes of value of financial liabilities to fund investors and the increase in finance expenses from bond issuances.

Income Tax Expenses

Our income tax expenses decreased by 21.8% from RMB478.7 million in the second quarter of 2019 to RMB374.3 million in the second quarter of 2020, primarily due to the additional deductibility of expense items in the corporate income tax annual filing.

Profit for the Period

As a result of the foregoing, we had a profit of RMB4.5 billion in the second quarter of 2020, compared with a profit of RMB2.0 billion in the second quarter of 2019.

Second Quarter of 2020 Compared to First Quarter of 2020

The following table sets forth the comparative figures for the second quarter of 2020 and the first quarter of 2020:

	Unaudited	
	Three months ended	
	June 30,	March 31,
	2020	2020
	(RMB in millions)	
Revenue	53,537.8	49,702.2
Cost of sales	(45,836.4)	(42,143.7)
Gross profit	7,701.4	7,558.5
Selling and marketing expenses	(3,223.7)	(2,624.9)
Administrative expenses	(836.4)	(781.5)
Research and development expenses	(1,958.3)	(1,871.0)
Fair value changes on investments measured at fair value through profit or loss	2,366.2	347.8
Share of gains of investments accounted for using the equity method	892.6	130.7
Other income	183.1	73.7
Other gains/(losses), net	288.1	(510.2)
Operating profit	5,413.0	2,323.1
Finance (expense)/income, net	(545.2)	130.9
Profit before income tax	4,867.8	2,454.0
Income tax expenses	(374.3)	(294.2)
Profit for the period	4,493.5	2,159.8
Non-IFRS measure: Adjusted Net Profit	3,373.2	2,300.5

Revenue

Revenue increased by 7.7% to RMB53.5 billion in the second quarter of 2020 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the second quarter of 2020 and the first quarter of 2020.

	Unaudited			
	Three months ended		March 31, 2020	
	June 30, 2020		March 31, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	31,627.5	59.1%	30,324.7	61.0%
IoT and lifestyle products	15,252.9	28.5%	12,984.2	26.1%
Internet services	5,907.6	11.0%	5,900.7	11.9%
Others	749.8	1.4%	492.6	1.0%
Total revenue	<u>53,537.8</u>	<u>100.0%</u>	<u>49,702.2</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 4.3% from RMB30.3 billion in the first quarter of 2020 to RMB31.6 billion in the second quarter of 2020. We sold 28.3 million smartphone units in the second quarter of 2020, compared to 29.2 million units in the first quarter of 2020. The decrease in shipments was mainly due to impact of the pandemic, particularly in the overseas markets. The ASP of our smartphones was RMB1,116.3 per unit in the second quarter of 2020, compared with RMB1,038.0 per unit in the first quarter of 2020. The increase in ASP was primarily due to the increase in sales of mid- to high-end smartphone models in the second quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 17.5% from RMB13.0 billion in the first quarter of 2020 to RMB15.3 billion in the second quarter of 2020, primarily due to the growth in demand of certain IoT products, such as air conditioners, smart TVs and robot vacuum cleaners. Revenue from smart TVs and laptops increased by 3.4% from RMB4.6 billion in the first quarter of 2020 to RMB4.8 billion in the second quarter of 2020.

Internet services

Revenue from our internet services segment remained stable at RMB5.9 billion in the second quarter of 2020, compared to RMB5.9 billion in the first quarter of 2020. The quarter-over-quarter growth in advertising revenue was offset by the decline in gaming revenue.

Others

Other revenue increased by 52.2% from RMB492.6 million in the first quarter of 2020 to RMB749.8 million in the second quarter of 2020, primarily due to the increase in revenue from the sales of materials.

Cost of Sales

Our cost of sales increased by 8.8% from RMB42.1 billion in the first quarter of 2020 to RMB45.8 billion in the second quarter of 2020. The following table sets forth our cost of sales by line of business in the second quarter of 2020 and the first quarter of 2020:

	Unaudited			
	Three months ended			
	June 30, 2020		March 31, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	29,336.6	54.8%	27,872.3	56.1%
IoT and lifestyle products	13,515.2	25.2%	11,242.9	22.6%
Internet services	2,347.5	4.4%	2,529.1	5.1%
Others	637.1	1.2%	499.4	1.0%
Total cost of sales	<u>45,836.4</u>	<u>85.6%</u>	<u>42,143.7</u>	<u>84.8%</u>

Smartphones

Cost of sales related to our smartphones segment increased by 5.3% from RMB27.9 billion in the first quarter of 2020 to RMB29.3 billion in the second quarter of 2020, 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 20.2% from RMB11.2 billion in the first quarter of 2020 to RMB13.5 billion in the second quarter of 2020, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 7.2% from RMB2.5 billion in the first quarter of 2020 to RMB2.3 billion in the second quarter of 2020, primarily due to the decreased cost of our gaming and fintech businesses.

Others

Cost of sales related to our others segment increased by 27.6% from RMB499.4 million in the first quarter of 2020 to RMB637.1 million in the second quarter of 2020, primarily due to the increase in cost from sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 1.9% from RMB7.6 billion in the first quarter of 2020 to RMB7.7 billion in the second quarter of 2020. The gross profit margin from our smartphones segment decreased from 8.1% in the first quarter of 2020 to 7.2% in the second quarter of 2020, mainly due to enhanced promotional efforts during major online shopping festivals in the second quarter of 2020.

The gross profit margin from our IoT and lifestyle products segment decreased from 13.4% in the first quarter of 2020 to 11.4% in the second quarter of 2020, mainly due to enhanced promotional efforts during major online shopping festivals in the second quarter of 2020. The gross profit margin from our internet services segment increased from 57.1% in the first quarter of 2020 to 60.3% in the second quarter of 2020, mainly due to higher revenue contribution from our advertising businesses which have higher gross profit margin.

As a result of the foregoing, our gross profit margin decreased from 15.2% in the first quarter of 2020 to 14.4% in the second quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 22.8% from RMB2.6 billion in the first quarter of 2020 to RMB3.2 billion in the second quarter of 2020, primarily due to the increase in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased 25.5% from RMB851.8 million in the first quarter of 2020 to RMB1,068.6 million in the second quarter of 2020, primarily due to our elevated marketing efforts for our 5G and premium smartphone models to increase brand awareness. The packaging and transportation expenses increased 49.2% from RMB584.1 million in the first quarter of 2020 to RMB871.4 million in the second quarter of 2020, primarily due to the higher international distribution costs during the pandemic.

Administrative Expenses

Our administrative expenses increased by 7.0% from RMB781.5 million in the first quarter of 2020 to RMB836.4 million in the second quarter of 2020, primarily due to the increase of professional fee.

Research and Development Expenses

Our research and development expenses increased by 4.7% from RMB1,871.0 million in the first quarter of 2020 to RMB1,958.3 million in the second quarter of 2020, primarily due to the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss increased by 580.2% from a gain of RMB347.8 million in the first quarter of 2020 to a gain of RMB2,366.2 million in the second quarter of 2020, primarily due to the higher fair value gains of equity and preferred share investments in the second quarter of 2020.

Share of Gains of Investments Accounted for Using the Equity Method

Our share of gains of investments accounted for using the equity method increased by 528.8% from a net gain of RMB130.7 million in the first quarter of 2020 to a net gain of RMB892.6 million in the second quarter of 2020, primarily due to the dilution gain from the initial public offering of Kingsoft Cloud, partially offset by share of loss of iQIYI in the second quarter of 2020.

Other Income

Our other income increased by 148.3% from RMB73.7 million in the first quarter of 2020 to RMB183.1 million in the second quarter of 2020, primarily due to the increase in government grants and dividend income received from our investee companies.

Other Gains/(Losses), Net

Our other net gains were RMB288.1 million in the second quarter of 2020, compared with net losses of RMB510.2 million in the first quarter of 2020. This is mainly due to the gain on disposal from an investee company and the recognition of foreign exchange gains for the second quarter of 2020, compared to foreign exchange losses for the first quarter of 2020.

Finance (Expense)/Income, Net

Our net finance (expense)/income changed from net income of RMB130.9 million in the first quarter of 2020 to net expense of RMB545.2 million in the second quarter of 2020, primarily due to the increase in changes of value of financial liabilities to fund investors and the increase in finance expenses from bond issuances.

Income Tax Expenses

Our income tax expenses increased by 27.2% from RMB294.2 million in the first quarter of 2020 to RMB374.3 million in the second quarter of 2020, primarily due to the increase of operating profit in the second quarter of 2020, partially offset by the additional deductibility of expense items in the corporate income tax annual filing.

Profit for the Period

As a result of the foregoing, we had a profit of RMB4.5 billion in the second quarter of 2020, compared with a profit of RMB2.2 billion in the first quarter of 2020.

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 non-IFRS adjusted net profit (“Adjusted Net Profit”) as an additional financial measure. We define Adjusted Net Profit as profit for the period, as adjusted by adding back (i) share-based compensation, (ii) net fair value changes on investments, (iii) amortization of intangible assets resulting from acquisitions, (iv) changes of value of financial liabilities to fund investors, and (v) 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 operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and the impact of certain investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating the Group’s operating performance. However, the use of this particular non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

The following tables set forth reconciliations of the Group’s non-IFRS measures for the second quarter of 2020, the first quarter of 2020, the second quarter of 2019 and the first half of 2020 and 2019 to the nearest measures prepared in accordance with IFRS.

In the second quarter of 2020, the net fair value changes on investments of RMB2,135.2 million in the non-IFRS adjustments mainly include the pre-tax dilution gain on an equity investee of RMB1,039.5 million, the pre-tax gain on disposal of an equity investee of RMB264.0 million, and the pre-tax fair value gains on investments measured at fair value through profit or loss of RMB2,208.8 million offset by the pre-tax net realized gains on disposal of investments of RMB1,366.7 million (RMB1,157.2 million post-tax).

	Unaudited						Non-IFRS
	Three Months Ended June 30, 2020						
	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⁾	
	As reported						
Profit for the period	4,493,473	518,582	(2,135,208)	79	634,371	(138,098)	3,373,199
Net margin	8.4%						6.3%

Unaudited
Six Months Ended June 30, 2019

	Adjustments						
	As reported	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%

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, net gains/(losses) on deemed disposals of investee companies, the impairment provision for investments, re-measurement of loss of significant influence in an associate and 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

During the six months ended June 30, 2020, other than the funds raised through our Global Offering (as defined in the prospectus of the Company dated June 25, 2018 (the “**Prospectus**”)) in July 2018 and through the issuance of debt securities as described in “Issuance of Debt Securities” below, we funded our cash requirements principally from cash generated from our operations, bank borrowings. We had cash and cash equivalents of RMB22.8 billion and RMB25.1 billion as of June 30, 2020 and March 31, 2020, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss and long-term bank deposits. As of June 30, 2020, the aggregate amount of cash resources of the Group was RMB64.4 billion.

Issuance of Debt Securities

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

On April 29, 2020, Xiaomi Best Time International Limited, a wholly owned subsidiary of the Company, issued US\$600 million 3.375% senior notes due 2030 unconditionally and irrevocably guaranteed by the Company (the “Senior Notes”). For further details of the Senior Notes, please refer to the announcements of the Company published on April 20, 2020 and April 23, 2020.

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	June 30, 2020	March 31, 2020
	(in thousands of RMB)	
Net cash generated from/(used in) operating activities ⁽¹⁾	4,279,092	(8,205,339)
Net cash (used in)/generated from investing activities	(12,422,151)	8,210,391
Net cash generated from/(used in) financing activities ⁽¹⁾	6,024,703	(1,231,329)
	<u>(2,118,356)</u>	<u>(1,226,277)</u>
Net decrease in cash and cash equivalents		
Cash and cash equivalents at beginning of period	25,073,687	25,919,861
Effects of exchange rate changes on cash and cash equivalents	(112,015)	380,103
	<u>22,843,316</u>	<u>25,073,687</u>
Cash and cash equivalents at end of period		

Note:

- (1) Excluding (1) the increase in loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the increase in trade payables related to the finance factoring business; and (3) the increase in restricted cash resulting from the fintech business, the net cash generated from operating activities was RMB6.7 billion in the second quarter of 2020 and the net cash used in operating activities was RMB11.9 billion in the first quarter of 2020, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB3.4 billion in the second quarter of 2020 and the net cash used in financing activities was RMB211.9 million in the first quarter of 2020, 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 announcement.

Net Cash Generated From Operating Activities

Net cash generated from 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 2020, net cash generated from our operating activities amounted to RMB4.3 billion, representing cash generated from operations of RMB4.9 billion minus income tax paid of RMB0.6 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB4.9 billion, adjusted by an increase in trade payables of RMB6.6 billion, partially offset by an increase in inventories of RMB5.8 billion.

Net Cash Used In Investing Activities

For the second quarter of 2020, our net cash used in investing activities was RMB12.4 billion, which was primarily attributed to the net changes of short-term bank deposits of RMB6.6 billion and the net increase of short-term investments measured at fair value through profit or loss of RMB4.1 billion.

Net Cash Generated From Financing Activities

For the second quarter of 2020, our net cash generated from financing activities was RMB6.0 billion, which was primarily attributed to the net changes of borrowings of RMB6.6 billion.

Borrowings

As of March 31, 2020 and June 30, 2020, we had total borrowings of RMB16.5 billion and RMB23.4 billion, respectively.

Capital Expenditure

	Unaudited	
	Three months ended	
	June 30, 2020	March 31, 2020
	(in thousands of RMB)	
Capital expenditures	486,986	642,252
Placement of long-term investments ⁽¹⁾	2,547,427	2,449,658
	<hr/>	<hr/>
Total	<u>3,034,413</u>	<u>3,091,910</u>

Note:

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

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

Off-Balance Sheet Commitments and Arrangements

As of June 30, 2020, except for financial guarantee contracts, we had not entered into any off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of June 30, 2020, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In the second quarter of 2020, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of June 30, 2020, we had 18,960 full-time employees, 17,519 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 target global markets. As of June 30, 2020, our research and development personnel, totaling 9,270 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, 2020, 14,855 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the second quarter of 2020 were RMB2,171.8 million, representing a decrease of 1.7% from the first quarter of 2020.

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 and other regions such as India, and are exposed to foreign exchange risk arising from the exposure to various currencies, primarily with respect to the United States Dollar. Therefore, foreign exchange risk primarily arises from the recognized assets and liabilities in our subsidiaries when receiving or expecting to receive foreign currencies from, or paying or expecting 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 any impacts caused by exchange rate fluctuations.

Pledge of Assets

As of June 30, 2020, we pledged a restricted deposit of RMB1,443.9 million, compared with RMB1,372.8 million as of March 31, 2020.

Contingent Liabilities

As of June 30, 2020, we did not have any material contingent liabilities, compared with nil as of March 31, 2020.

CONDENSED FINANCIAL INFORMATION

Condensed Consolidated Income Statement

For the three months and six months ended June 30, 2020

(Expressed in Renminbi (“RMB”))

	Note	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
		2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	2	53,537,805	51,951,129	103,239,972	95,707,952
Cost of sales	2, 3	(45,836,359)	(44,692,410)	(87,980,069)	(83,233,656)
Gross profit		7,701,446	7,258,719	15,259,903	12,474,296
Selling and marketing expenses	3	(3,223,676)	(2,295,294)	(5,848,549)	(4,139,978)
Administrative expenses	3	(836,426)	(723,513)	(1,617,959)	(1,355,535)
Research and development expenses	3	(1,958,272)	(1,556,145)	(3,829,256)	(3,206,724)
Fair value changes on investments measured at fair value through profit or loss	5	2,366,188	(670,653)	2,714,034	1,962,062
Share of gains/(losses) of investments accounted for using the equity method		892,645	(12,080)	1,023,383	(157,472)
Other income		183,051	406,353	256,778	466,600
Other gains/(losses), net		288,071	(71,280)	(222,119)	(92,966)
Operating profit		5,413,027	2,336,107	7,736,215	5,950,283
Finance (expense)/income, net		(545,231)	98,211	(414,330)	201,175
Profit before income tax		4,867,796	2,434,318	7,321,885	6,151,458
Income tax expenses		(374,323)	(478,760)	(668,518)	(1,004,156)
Profit for the period		4,493,473	1,955,558	6,653,367	5,147,302
Profit attributable to:					
— Owners of the Company		4,498,128	1,951,956	6,661,643	5,077,915
— Non-controlling interests		(4,655)	3,602	(8,276)	69,387
		4,493,473	1,955,558	6,653,367	5,147,302
Earnings per share (expressed in RMB per share):					
Basic		0.189	0.082	0.279	0.214
Diluted		0.183	0.079	0.271	0.206

Condensed Consolidated Statement of Comprehensive Income

For the three months and six months ended June 30, 2020

(Expressed in RMB)

Note	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Profit for the period	4,493,473	1,955,558	6,653,367	5,147,302
Other comprehensive (loss)/income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Share of other comprehensive income/(loss) of investments accounted for using the equity method	(6,453)	(32,618)	16,983	(14,530)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	(4,773)	—	(4,773)	—
Net gains from changes in fair value of financial assets at fair value through other comprehensive income	2,101	—	2,101	—
Currency translation differences	27,778	(77,981)	36,123	33,636
<i>Item that will not be reclassified subsequently to profit or loss</i>				
Currency translation differences	(45,891)	675,564	439,556	81,609
Other comprehensive (loss)/income for the period, net of tax	(27,238)	564,965	489,990	100,715
Total comprehensive income for the period	4,466,235	2,520,523	7,143,357	5,248,017
Attributable to:				
— Owners of the Company	4,470,625	2,510,048	7,145,858	5,176,000
— Non-controlling interests	(4,390)	10,475	(2,501)	72,017
	4,466,235	2,520,523	7,143,357	5,248,017

Condensed Consolidated Balance Sheet

As of June 30, 2020

(Expressed in RMB)

		Unaudited As of June 30, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Assets			
Non-current assets			
Property and equipment		8,001,825	6,992,331
Intangible assets		1,456,254	1,672,002
Long-term bank deposits		2,919,800	590,157
Investments accounted for using the equity method		12,082,879	9,300,507
Long-term investments measured at fair value through profit or loss	5	24,712,785	20,679,363
Deferred income tax assets		1,509,833	1,283,415
Other non-current assets		5,687,964	5,572,346
		<u>56,371,340</u>	<u>46,090,121</u>
Current assets			
Inventories	7	38,856,939	32,585,438
Trade receivables	6	8,472,074	6,948,567
Loan receivables		13,089,932	12,723,503
Prepayments and other receivables		19,935,731	19,837,018
Short-term investments measured at fair value through other comprehensive income	5	341,766	—
Short-term investments measured at fair value through profit or loss	5	17,159,356	16,463,390
Short-term bank deposits		19,999,006	21,523,043
Restricted cash		1,443,917	1,538,266
Cash and cash equivalents		22,843,316	25,919,861
		<u>142,142,037</u>	<u>137,539,086</u>
Total assets		<u><u>198,513,377</u></u>	<u><u>183,629,207</u></u>

	Note	Unaudited As of June 30, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		391	388
Reserves		<u>89,806,195</u>	<u>81,330,186</u>
		<u>89,806,586</u>	<u>81,330,574</u>
Non-controlling interests		<u>355,786</u>	<u>327,102</u>
Total equity		<u><u>90,162,372</u></u>	<u><u>81,657,676</u></u>
Liabilities			
Non-current liabilities			
Borrowings	8	9,995,908	4,786,856
Deferred income tax liabilities		415,310	579,902
Warranty provision		728,262	667,857
Other non-current liabilities		<u>4,524,238</u>	<u>3,756,211</u>
		<u>15,663,718</u>	<u>9,790,826</u>
Current liabilities			
Trade payables	9	60,433,835	59,527,940
Other payables and accruals		8,717,155	9,101,343
Advance from customers		7,248,622	8,237,119
Borrowings	8	13,408,668	12,836,555
Income tax liabilities		496,025	479,350
Warranty provision		<u>2,382,982</u>	<u>1,998,398</u>
		<u>92,687,287</u>	<u>92,180,705</u>
Total liabilities		<u><u>108,351,005</u></u>	<u><u>101,971,531</u></u>
Total equity and liabilities		<u><u>198,513,377</u></u>	<u><u>183,629,207</u></u>

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

(Expressed in RMB)

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(3,926,247)	10,915,424
Net cash used in investing activities	(4,211,760)	(8,030,554)
Net cash generated from financing activities	<u>4,793,374</u>	<u>1,891,999</u>
Net (decrease)/increase in cash and cash equivalents	(3,344,633)	4,776,869
Cash and cash equivalents at the beginning of the period	25,919,861	30,230,147
Effects of exchange rate changes on cash and cash equivalents	<u>268,088</u>	<u>(85,988)</u>
Cash and cash equivalents at end of the period	<u>22,843,316</u>	<u>34,921,028</u>

Notes to the Interim Financial Information

(Expressed in RMB unless otherwise indicated)

1 Basis of preparation

The condensed consolidated interim financial information comprises the consolidated balance sheet as of June 30, 2020, the consolidated income statement and the consolidated statement of comprehensive income, 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 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, 2019 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2019 annual report of the Company dated March 31, 2020 (the “**2019 Financial Statements**”).

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, 2019, as described in the 2019 Financial Statements.

2 Segment information

The Group’s business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the Chief Operating Decision Maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions. As a result of this evaluation, the Group determined that it has operating segments as follows:

- Smartphones
- IoT and lifestyle products
- Internet services
- Others

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. There were no material inter-segment sales during the three months and six months ended June 30, 2020 and 2019. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China and other countries or regions. For the three months and six months ended June 30, 2020 and 2019, the geographical information on the total revenues is as follows:

	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Mainland China	29,509,195	55.1	30,100,098	57.9	54,379,239	52.7	57,060,587	59.6
Rest of the world (Note (a))	24,028,610	44.9	<u>21,851,031</u>	42.1	48,860,733	47.3	<u>38,647,365</u>	40.4
	<u>53,537,805</u>		<u>51,951,129</u>		<u>103,239,972</u>		<u>95,707,952</u>	

Note:

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

3 Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	39,955,184	39,612,082	76,799,391	73,827,229
Provision for impairment of inventories	1,097,450	1,365,509	1,506,789	2,471,384
Royalty fees	1,532,340	1,238,853	3,058,800	2,242,245
Employee benefit expenses	2,171,783	1,779,163	4,381,704	3,818,519
Depreciation of property and equipment, right-of-use assets and investment properties	250,860	219,729	480,552	429,499
Amortization of intangible assets	122,256	123,140	244,484	247,787
Promotion and advertising expenses	1,068,606	680,965	1,920,378	977,784
Content fees to game developers and video providers	555,094	370,158	1,244,028	742,720
Credit loss allowance for loan receivables	691,763	266,222	1,183,317	453,228
Consultancy and professional service fees	224,610	155,198	418,820	278,447
Cloud service, bandwidth and server custody fees	464,190	454,476	918,102	946,029
Warranty expenses	684,410	728,450	1,322,288	1,327,432

4 Earnings per share

(a) Basic

Basic earnings per share for the three months and six months ended June 30, 2020 and 2019 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,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	4,498,128	1,951,956	6,661,643	5,077,915
Weighted average number of ordinary shares in issue (thousand shares)	<u>23,827,382</u>	<u>23,770,504</u>	<u>23,849,571</u>	<u>23,727,744</u>
Basic earnings per share (expressed in RMB per share)	<u>0.189</u>	<u>0.082</u>	<u>0.279</u>	<u>0.214</u>

(b) Diluted

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	4,498,128	1,951,956	6,661,643	5,077,915
Weighted average number of ordinary shares in issue (thousand shares)	23,827,382	23,770,504	23,849,571	23,727,744
Adjustments for restricted shares units ("RSUs") and share options granted to employees (thousand shares)	<u>692,017</u>	<u>905,405</u>	<u>725,455</u>	<u>962,640</u>
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	<u>24,519,399</u>	<u>24,675,909</u>	<u>24,575,026</u>	<u>24,690,384</u>
Diluted earnings per share (expressed in RMB per share)	<u>0.183</u>	<u>0.079</u>	<u>0.271</u>	<u>0.206</u>

5 Investments

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Current assets		
Short-term investments measured at fair value through profit or loss	17,159,356	16,463,390
Short-term investments measured at fair value through other comprehensive income	341,766	—
	<u>17,501,122</u>	<u>16,463,390</u>
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	8,587,610	7,272,454
— Preferred shares investments	16,125,175	13,406,909
	<u>24,712,785</u>	<u>20,679,363</u>

Amounts recognized in profit or loss

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Fair value changes on equity investments	1,778,648	(994,675)	2,164,496	1,530,746
Fair value changes on preferred shares investments	430,153	292,026	274,607	378,022
Fair value changes on short-term investments measured at fair value through profit or loss	157,387	31,996	274,931	53,294
	<u>2,366,188</u>	<u>(670,653)</u>	<u>2,714,034</u>	<u>1,962,062</u>

6 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, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Trade receivables		
Up to 3 months	7,836,020	6,076,873
3 to 6 months	382,219	550,929
6 months to 1 year	247,221	308,197
1 to 2 years	66,064	98,643
Over 2 years	<u>66,649</u>	<u>29,706</u>
	8,598,173	7,064,348
Less: credit loss allowance	<u>(126,099)</u>	<u>(115,781)</u>
	<u>8,472,074</u>	<u>6,948,567</u>

7 Inventories

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Raw materials	13,360,533	9,347,930
Finished goods	19,354,802	18,030,136
Work in progress	3,911,311	2,422,504
Spare parts	1,973,571	1,733,042
Others	<u>1,434,654</u>	<u>1,925,785</u>
	40,034,871	33,459,397
Less: provision for impairment	<u>(1,177,932)</u>	<u>(873,959)</u>
	<u>38,856,939</u>	<u>32,585,438</u>

8 Borrowings

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities	3,244,500	2,305,000
Fund raised through trusts	547,500	450,000
Secured borrowings	1,804,544	1,825,856
Unsecured borrowings	4,399,364	206,000
	<u>9,995,908</u>	<u>4,786,856</u>
Included in current liabilities		
Asset-backed securities	2,739,205	2,647,641
Fund raised through trusts	342,285	420,000
Secured borrowings	1,048,008	1,796,701
Unsecured borrowings	9,279,170	7,972,213
	<u>13,408,668</u>	<u>12,836,555</u>

9 Trade payables

Trade payables primarily include payables for inventories. As of June 30, 2020 and December 31, 2019, 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, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Up to 3 months	57,480,722	57,942,872
3 to 6 months	2,413,600	1,136,595
6 months to 1 year	355,156	342,864
1 to 2 years	104,847	55,709
Over 2 years	79,510	49,900
	<u>60,433,835</u>	<u>59,527,940</u>

OTHER INFORMATION

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

During the six months ended June 30, 2020 and up to the date of this announcement, the Company repurchased a total of 48,410,000 Class B Shares (the “**Shares Repurchased**”) of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at an aggregate consideration (including transaction cost) of HK\$499,541,868. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share		Aggregate Consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
April	<u>48,410,000</u>	10.52	10.12	<u>499,541,868</u>
Total	<u><u>48,410,000</u></u>			<u><u>499,541,868</u></u>

The number of Class B Shares in issue was reduced by 48,410,000 shares as a result of the cancellation accordingly. Upon cancellation of the Shares Repurchased, the weighted voting rights (“**WVR**”) beneficiaries of the Company simultaneously reduced their WVR in the Company proportionately by way of converting their Class A ordinary shares (“**Class A Shares**”) into Class B Shares on a one-to-one ratio pursuant to Rule 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), such that the proportion of shares carrying WVR 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 April was subsequently cancelled on May 25, 2020. A total of 13,084,284 Class A Shares were converted into Class B Shares on a one-to-one ratio on May 25, 2020, of which Lei Jun, through Smart Mobile Holdings Limited, converted 8,514,521 Class A Shares and Lin Bin converted 4,569,763 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, 2020.

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 shareholders.

Save for code provision A.2.1 of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules, the Company has complied with all the code provisions set out in the CG Code during the six months ended June 30, 2020.

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 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.

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2020. 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.

Material Litigation

As of June 30, 2020, 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.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2020.

Use of Net Proceeds from the Global Offering

The net proceeds received by the Company from the Global Offering were approximately HK\$27,561.0 million. There has been no change in the intended use of net proceeds as previously disclosed in the Prospectus.

Events after June 30, 2020

Save as disclosed in this announcement, there was no other significant events that might affect the Group after June 30, 2020 and up to the date of this announcement.

Publication of the Interim Results Announcement and Interim Report

This interim results announcement has been published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.mi.com. The interim report of the Company will be published on the aforesaid websites of the Stock Exchange and the Company and will be dispatched to the Company's shareholders in due course.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, August 26, 2020

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