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, 2019

The board (the "**Board**") of directors (the "**Directors**") of Xiaomi Corporation 小米集団 (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, 2019. 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. In addition, these 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, 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%

BUSINESS REVIEW AND OUTLOOK

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 recognitions 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 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 announcement, 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 CCe9,* 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 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.

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.

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 announcement, 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.

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	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

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%

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.

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 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

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%

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.

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%

	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 announcement.

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 for the period 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.

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 deposit 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.

CONDENSED FINANCIAL INFORMATION

Consolidated Income Statement

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

	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	3	**51,951,129**	45,235,473	**95,707,952**	79,647,835
Cost of sales	4	**(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	4	**(2,295,294)**	(2,075,709)	**(4,139,978)**	(3,478,538)
Administrative expenses	4	**(723,513)**	(10,456,916)	**(1,355,535)**	(10,922,239)
Research and development expenses	4	**(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	8	**(670,653)**	526,910	**1,962,062**	2,289,778
Share of losses of investments accounted for using the equity method	5	**(12,080)**	(128,512)	**(157,472)**	(112,183)
Other income		**406,353**	207,315	**466,600**	365,541
Other (losses)/gains, net		**(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	12	**—**	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	6	**(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)	7				
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

	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	5	**(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

	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		**5,891,124**	5,068,053
Intangible assets		**1,803,026**	2,061,192
Investments accounted for using the equity method	5	**9,454,872**	8,639,238
Long-term investments measured at fair value through profit or loss	8	**19,195,544**	18,636,208
Deferred income tax assets		**1,560,637**	1,312,245
Other non-current assets		**4,699,364**	95,485
		42,604,567	39,215,389
Current assets			
Inventories	10	**26,675,009**	29,480,685
Trade receivables	9	**7,337,191**	5,598,443
Loan receivables		**11,733,101**	10,293,645
Prepayments and other receivables		**18,778,550**	20,914,946
Short-term investments measured at fair value through profit or loss	8	**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

	Note	**Unaudited As of June 30, 2019 RMB'000**	Audited As of December 31, 2018 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**384**	377
Reserves		**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
Liabilities			
Non-current liabilities			
Borrowings	11	**7,099,923**	7,856,143
Deferred income tax liabilities		**758,583**	777,645
Warranty provision		**753,026**	559,016
Other non-current liabilities	13	**3,589,735**	2,844,859
		12,201,267	12,037,663
Current liabilities			
Trade payables	14	**48,799,255**	46,287,271
Other payables and accruals		**7,006,271**	6,312,770
Advance from customers		**4,668,089**	4,479,522
Borrowings	11	**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

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2019

	Unaudited Six months ended June 30,	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**10,915,424**	6,121,543
Net cash used in investing activities	**(8,030,554)**	(3,825,729)
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:

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 Renminbi ("**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**").

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.

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 a lease liability 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 at 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.

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

3 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, 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.

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 RMB’000	**IoT and lifestyle products RMB’000**	**Internet services RMB’000**	**Others RMB’000**	**Total 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	**2,589,562**	**1,671,927**	**3,005,413**	**(8,183)**	**7,258,719**

	Three months ended June 30, 2018				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total 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 RMB'000	**IoT and lifestyle products RMB'000**	**Internet services RMB'000**	**Others RMB'000**	**Total 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**

	Six months ended June 30, 2018				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total 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 (Unaudited)	**%**	RMB'000 (Unaudited)	%	**RMB'000 (Unaudited)**	%	RMB'000 (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)	**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: Revenues outside mainland China are mainly from India, Indonesia and Western Europe.

4 Expenses by nature

	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)
Cost of inventories sold	**39,612,082**	35,821,152	**73,827,229**	62,984,283
Provision for impairment of inventories	**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	**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

5 Investments accounted for using the equity method

	As of June 30, 2019	As of December 31, 2018
	RMB'000	RMB'000
	(Unaudited)	(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	2018
	RMB'000	RMB'000
	(Unaudited)	(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

6 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.

7 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 (thousand shares)	**23,770,504**	10,398,712	**23,727,744**	10,080,295
Basic earnings per share (expressed in RMB per share)	**0.082**	1.409	**0.214**	0.759

(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 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 convertible redeemable preferred shares ("**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.

	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 (thousand shares)	**23,770,504**	10,398,712	**23,727,744**	10,080,295
Adjustments for RSUs and share options granted to employees (thousand shares)	**905,405**	22,456	**962,640**	22,456
Adjustments for Preferred Shares (thousand shares)	**—**	10,504,922	**—**	10,504,922
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (thousand shares)	**24,675,909**	20,926,090	**24,690,384**	20,607,673
Diluted earnings/(loss) per share (expressed in RMB per share)	**0.079**	(0.377)	**0.206**	(0.234)

8 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	**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	**11,066,210**	11,006,279
	19,195,544	18,636,208

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

9 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, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (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

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

10 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	**(1,450,136)**	(1,852,051)
	26,675,009	29,480,685

11 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	**916,138**	2,752,815
Fund raised through trusts	**870,000**	—
Secured borrowings	**1,906,303**	1,260,941
Unsecured borrowings	**3,407,482**	3,842,387
	7,099,923	7,856,143
Included in current liabilities		
Asset-backed securities	**3,045,000**	586,282
Fund raised through trusts	**—**	648,390
Unsecured borrowings	**3,634,136**	1,840,522
	6,679,136	3,075,194

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.

12 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 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
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.

13 Other non-current liabilities

	As of June 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Liabilities to fund investors	**2,877,204**	2,823,504
Lease liabilities (Note 2)	**596,794**	—
Others	**115,737**	21,355
	3,589,735	2,844,859

14 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

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 announcement, the Company repurchased a total of 125,510,000 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$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 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 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 announcement.

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, 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 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules 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 announcement.

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.

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.

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.

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 THE GLOBAL OFFERING

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.

EVENTS AFTER THE END OF REPORTING PERIOD

Save as disclosed in this announcement, there was no other significant events that might affect the Group after June 30, 2019 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 20, 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Lei Jun as Chairman and Executive Director and Mr. Lin Bin as Executive Director, Mr. Koh Tuck Lye and Mr. Liu Qin as Non-executive Directors, and Dr. Chen Dongsheng, Dr. Lee Ka Kit and Mr. Wong Shun Tak as Independent Non-executive Directors.