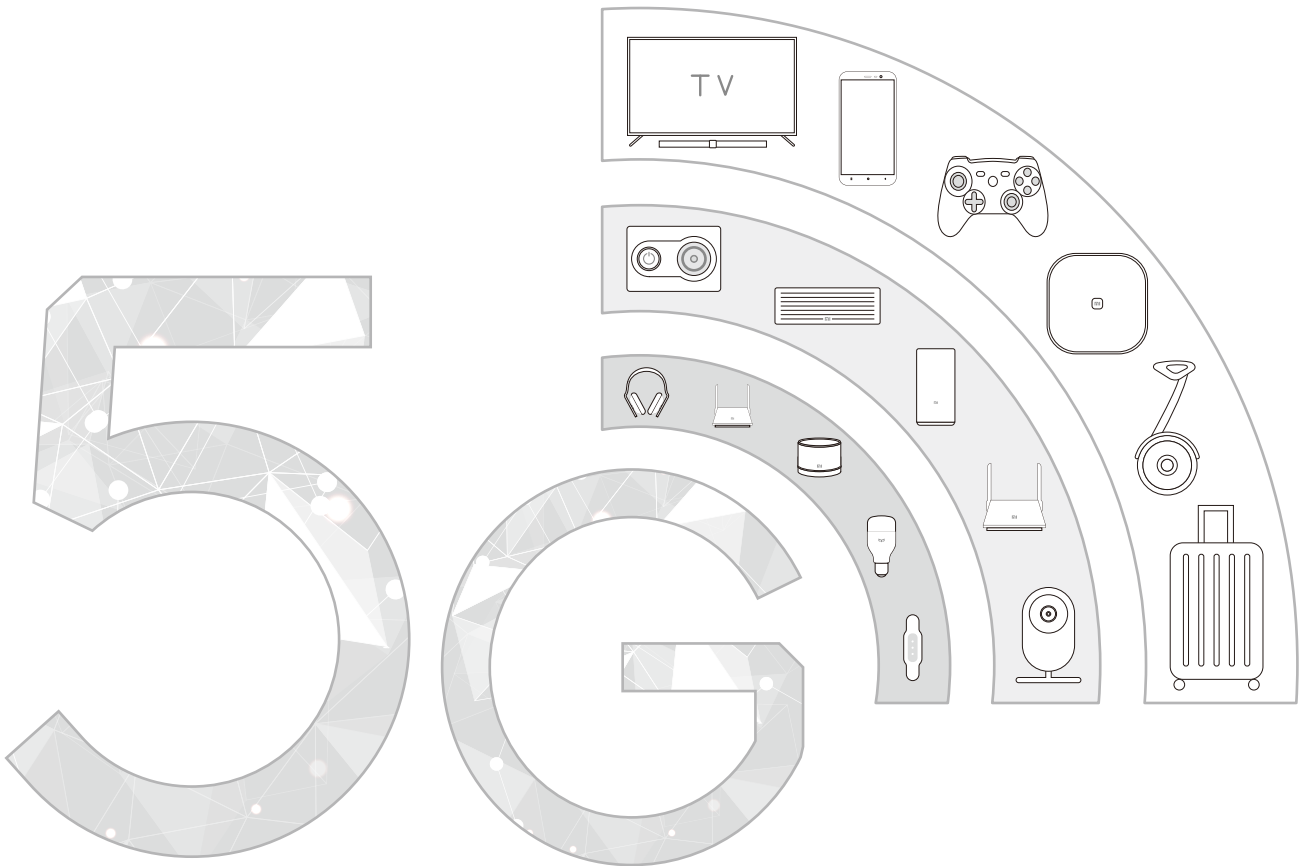




小米十周年

XIAOMI 10th ANNIVERSARY
2010-2020

Stock Code : 1810



XIAOMI CORPORATION

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

2020 INTERIM REPORT

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

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

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

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MI 10 Pro 5G

MI
Xiaomi Communications Co., Ltd.
10th Anniversary Edition

12-120mm 1:1.85-4.1 ASPH

120X

INNOVATION FOR EVERYONE

NFC

MI TURBO CHARGE

DESIGNED BY XIAOMI

2010-2020
XIAOMI

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



CORPORATE INFORMATION

Board of Directors

Executive Directors

Lei Jun (雷軍)(*Chairman of the Board*)

Lin Bin (林斌)(*Vice Chairman of the Board*)

Chew Shou Zi (周受資)

Non-Executive Director

Liu Qin (劉芹)

Independent Non-Executive Directors

Chen Dongsheng (陳東升)

Wong Shun Tak (王舜德)

Tong Wai Cheung Timothy (唐偉章)

Audit Committee

Wong Shun Tak (王舜德) (*Chairman*)

Liu Qin (劉芹)

Chen Dongsheng (陳東升)

Remuneration Committee

Chen Dongsheng (陳東升)(*Chairman*)

Lei Jun (雷軍)

Wong Shun Tak (王舜德)

Nomination Committee

Tong Wai Cheung Timothy (唐偉章) (*Chairman*)

Lin Bin (林斌)

Wong Shun Tak (王舜德)

Corporate Governance Committee

Chen Dongsheng (陳東升)(*Chairman*)

Wong Shun Tak (王舜德)

Tong Wai Cheung Timothy (唐偉章)

Joint Company Secretaries

Lin Steve (林冠男)

So Ka Man (蘇嘉敏)

Authorized Representatives

Lin Bin (林斌)

So Ka Man (蘇嘉敏)

Auditor

PricewaterhouseCoopers (*Certified Public Accountants
and Registered Public Interest Entity Auditor*)

Registered Office

Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Head Office and Principal Place of Business in Mainland China

Xiaomi Campus

Anningzhuang Road

Haidian District

Beijing

The People's Republic of China

Principal Place of Business in Hong Kong

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

Hong Kong Legal Advisor

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

Compliance Advisor

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

Hong Kong Share Registrar

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

Principal Share Registrar and Transfer Office

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

Principal Banker

China Merchants Bank, Beijing Branch, Shouti Sub-branch

Stock Code

1810

Company Website

www.mi.com

KEY HIGHLIGHTS

	June 30, 2020	Unaudited Three months ended			Quarter-over- quarter change
		June 30, 2019	Year-over- year change	March 31, 2020	
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%

	June 30, 2020	Unaudited Six months ended		Year-over- year change
		June 30, 2019	Year-over- year change	
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%	



Six months ended June 30, 2020



Revenue

103.2
billion



Non-IFRS Measure:
Adjusted net profit

5.7
billion



MIUI MAU

343.5⁽¹⁾
million



Connected
IoT devices

271.0⁽²⁾
million units

Year-on-year growth rate



Revenue

7.9%



Internet services
revenue

33.6%



Overseas
revenue

26.4%



MIUI MAU

23.3%⁽¹⁾

Note:

(1) MIUI MAU in June 2020

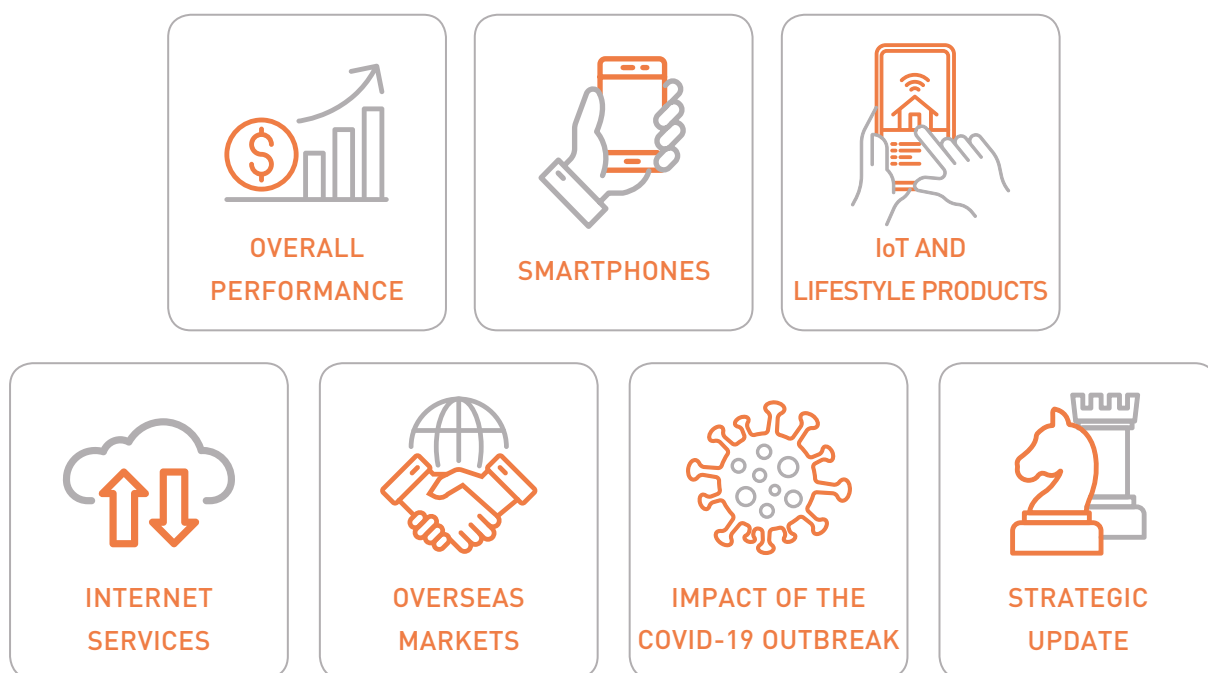
(2) Connected IoT devices as of June 30, 2020, excluding smartphones and laptops



CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our interim report for the three and six months ended June 30, 2020 to the shareholders.



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%.

CHAIRMAN'S STATEMENT

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.

CHAIRMAN'S STATEMENT

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

CHAIRMAN'S STATEMENT

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.

Lei Jun

Chairman

Hong Kong

August 26, 2020

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, 2020	June 30, 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

MANAGEMENT DISCUSSION AND ANALYSIS

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, 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	53,537.8	100.0%	51,951.1	100.0%

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, 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	45,836.4	85.6%	44,692.4	86.0%

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2020	March 31, 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

MANAGEMENT DISCUSSION AND ANALYSIS

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		Three months ended	
	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	53,537.8	100.0%	49,702.2	100.0%

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		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	45,836.4	85.6%	42,143.7	84.8%

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Three Months Ended June 30, 2020						
	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	4,493,473	518,582	(2,135,208)	79	634,371	(138,098)	3,373,199
Net margin	8.4%						6.3%

	Unaudited Three Months Ended March 31, 2020						
	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	2,159,894	569,921	(386,670)	79	41,006	(83,720)	2,300,510
Net margin	4.3%						4.6%

	Unaudited Three Months Ended June 30, 2019						
	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	1,955,558	387,545	1,421,586	79	53,700	(183,355)	3,635,113
Net margin	3.8%						7.0%

MANAGEMENT DISCUSSION AND ANALYSIS

	Unaudited Six Months Ended June 30, 2020						
	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
Profit for the period	6,653,367	1,088,503	(2,521,878)	158	675,377	(221,818)	5,673,709
Net margin	6.4%						5.5%

	Unaudited Six Months Ended June 30, 2019						
	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
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, Financial Resources and Gearing Ratio

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.

Our gearing ratio was -37.4% and -30.1%, as of March 31, 2020 and June 30, 2020, respectively. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings less our cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is calculated as total equity plus net debt.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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)
Net decrease in cash and cash equivalents	(2,118,356)	(1,226,277)
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
Cash and cash equivalents at end of period	22,843,316	25,073,687

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 interim report.

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
Total	3,034,413	3,091,910

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

OTHER INFORMATION

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

As of June 30, 2020, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

1. Interest in Shares

Name of Director or chief executive	Nature of interest ⁽¹⁾	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾
Lei Jun ⁽³⁾	Beneficiary, founder and settlor of a trust(L)	ARK Trust (Hong Kong) Limited	4,226,640,526 Class A Shares	65.07%
			2,443,898,616 Class B Shares	13.89%
			4,226,640,526 Class A Shares	65.07%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	2,292,431,944 Class B Shares	13.03%
			59,221,630 Class B Shares	0.34%
	Interest in controlled corporations(L)	Team Guide Limited	92,245,042 Class B Shares	0.52%
Lin Bin ⁽⁴⁾	Beneficial owner(L)		2,268,447,815 Class A Shares	34.93%
			54,489,973 Class B Shares	0.31%
			93,438,272 Class B Shares	0.53%
	Trustee of a trust(L)	Apex Star FT LLC	325,857,550 Class B Shares	1.85%
			7,686,600 Class B Shares	0.04%
	Interest in controlled corporations(L)	BIN LIN AND DAISY LIU FAMILY FOUNDATION		
Chew Shou Zi ⁽⁵⁾	Beneficial owner(L)		43,641,464 Class B Shares	0.25%
			25,344,772 Class B Shares	0.14%
	Interest in controlled corporations(L)	Tamarind Limited		

OTHER INFORMATION

Name of Director or chief executive	Nature of interest ⁽¹⁾	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾
Liu Qin ⁽⁶⁾	Interest in controlled corporations(L)	Morningside China TMT Fund I, L.P.	196,903,974 Class B Shares	1.12%
	Interest in controlled corporations(L)	Morningside China TMT Fund II, L.P.	40,314,865 Class B Shares	0.23%

Notes:

- (1) The letter "L" denotes a long position in the shares.
- (2) The calculation is based on the total number of relevant class of Shares in issue as of June 30, 2020.
- (3) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,226,640,526 Class A Shares and the 2,292,431,944 Class B Shares held by Smart Mobile Holdings Limited; 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO.
- (4) Lin Bin directly holds 2,268,447,815 Class A Shares and 54,489,973 Class B Shares, and is deemed to be interested in 93,438,272 Class B Shares held by Apex Star FT LLC which is controlled by Bin Lin Family Trust and 333,544,150 Class B Shares through the interest of his controlled corporations, of which 325,857,550 Class B Shares held by Apex Star LLC and 7,686,600 Class B Shares held by BIN LIN AND DAISY LIU FAMILY FOUNDATION.
- (5) Tamarind Limited is wholly-owned by Chew Shou Zi. Accordingly, Chew Shou Zi is deemed to be interested in the 25,344,772 Class B Shares held by Tamarind Limited under the SFO. Chew Shou Zi directly holds 18,986,236 Class B Shares and has interests in share options granted under the Pre-IPO ESOP to subscribe for 24,655,228 Class B Shares.
- (6) Liu Qin is entitled to exercise or control the exercise of one-third of the voting power at general meetings of TMT General Partner Ltd. and is therefore deemed to be interested in the Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P., which respectively controls Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P. (the "Morningside Funds"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.

2. Interest in associated corporations

Name of Director or chief executive	Nature of interest	Associated corporations	Approximate percentage of shareholding ⁽¹⁾
Lei Jun	Beneficial owner	Xiaomi Finance ⁽²⁾	42.07%
	Interest in controlled corporations(L)	Parkway Global Holdings Limited ⁽³⁾	100%
	Interest in controlled corporations(L)	Sunrise Vision Holdings Limited ⁽³⁾	100%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited ⁽³⁾	100%
	Interest in controlled corporations(L)	Shenzhen Pineapple Games Co., Ltd. (深圳市菠蘿遊戲有限公司)	0%
	Interest in controlled corporations(L)	Zimi International Incorporation ⁽⁴⁾	9.97%

Notes:

- (1) The calculation is based on the total number of shares of the associated corporations in issue as of June 30, 2020.
- (2) Xiaomi Finance is a subsidiary of the Company and therefore Xiaomi Finance is an associated corporation of the Company. Lei Jun is entitled to receive up to 42,070,000 shares in Xiaomi Finance pursuant to options granted to him under the XMF Share Option Scheme I (subject to the relevant vesting conditions).
- (3) Smart Mobile Holdings Limited, the holding company of the Company, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited, and is deemed to be interested in the 4,226,640,526 Class A Shares and 2,292,431,944 Class B Shares held by Smart Mobile Holdings Limited under the SFO. Therefore, Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited and Parkway Global Holdings Limited are associated corporations of the Company.
- (4) As of June 30, 2020, the Company held 49.91% of the equity interest of Zimi International Incorporation. Zimi International Incorporation is therefore an associated corporation of the Company. Lei Jun is ultimately interested in Zimi International Incorporation as to approximately 9.97% (being 9,803,900 ordinary shares).

Save as disclosed above, as of June 30, 2020, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As of June 30, 2020, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares ⁽¹⁾
Class A Shares			
Smart Mobile Holdings Limited ⁽²⁾	Beneficial interest	4,226,640,526	65.07%
Sunrise Vision Holdings Limited ⁽²⁾	Interest in controlled corporations	4,226,640,526	65.07%
Parkway Global Holdings Limited ⁽²⁾	Interest in controlled corporations	4,226,640,526	65.07%
ARK Trust (Hong Kong) Limited ⁽²⁾	Trustee	4,226,640,526	65.07%
Class B Shares			
Smart Mobile Holdings Limited ⁽²⁾	Beneficial interest	2,292,431,944	13.03%
Sunrise Vision Holdings Limited ⁽²⁾	Interest in controlled corporations	2,351,653,574	13.37%
Parkway Global Holdings Limited ⁽²⁾	Interest in controlled corporations	2,351,653,574	13.37%
ARK Trust (Hong Kong) Limited ⁽²⁾	Trustee	4,761,919,751	27.07%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of June 30, 2020.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,226,640,526 Class A Shares and the 2,292,431,944 Class B Shares held by Smart Mobile Holdings Limited; 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 2,318,021,135 Class B shares held by the trusts.

Save as disclosed above, as of June 30, 2020, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Share Option Schemes

The Company has adopted two share options schemes, namely the Pre-IPO ESOP and the Post-IPO Share Option Scheme. Each of two subsidiaries of the Company, Xiaomi Finance and Pinecone International, has adopted two share options schemes, respectively, which are XMF Share Option Scheme I, XMF Share Option Scheme II, Pinecone Share Option Scheme I and Pinecone Share Option Scheme II.

1. Pre-IPO ESOP

The Pre-IPO ESOP was adopted by the Company on May 5, 2011, superseded on August 24, 2012. The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent. The terms of the Pre-IPO ESOP are not subject to Chapter 17 of the Listing Rules. As of June 30, 2020, the Company has conditionally granted share options and RSU to eligible participants pursuant to the Pre-IPO ESOP, entitling the holders to acquire an aggregate of 575,101,807 Class B Shares, excluding 110,434,240 Class B shares which have been exercised. Except for Chew Shou Zi (who was not a Director at the time of grant but was subsequently appointed as an executive Director of the Company with effect from October 25, 2019), no share options and RSUs had been granted to the Directors. No further option could be granted under the Pre-IPO ESOP after the Listing.

Details of movements during the six months ended June 30, 2020 of share options and RSUs granted under the Pre-IPO ESOP are as follows:

Grantees	Dates of grant	Vesting period	Number of share options				Exercise price (US\$)
			Outstanding as of January 1, 2020	Cancelled/ Lapsed during the period	Exercised during the period	Outstanding as of June 30, 2020	
Chew Shou Zi	August 1, 2015 January 1, 2018	5-10 years	25,423,251	—	768,023	24,655,228	0 to 0.102
7,125 grantees in aggregate	Between April 1, 2010 to June 14, 2018	1-10 years	674,259,796	(14,147,000)	(109,666,217)	550,446,579	0 to 0.34
Total			699,683,047	(14,147,000)	(110,434,240)	575,101,807	

Further details of the Pre-IPO ESOP are set out in Note 25 to the interim financial information.

OTHER INFORMATION

2. Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted by the Company on June 17, 2018. The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and the Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants. The terms of the Post-IPO Share Option Scheme are governed by Chapter 17 of the Listing Rules.

As of June 30, 2020, no options had been granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme since its adoption. The total number of Class B Shares available for grant under the Post-IPO Share Option Scheme was 2,237,613,083 Class B Shares, representing approximately 9.29% of the issued share capital of the Company as at the Latest Practicable Date.

3. XMF Share Option Schemes

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

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

As of June 30, 2020, there were a total of 42,070,000 outstanding share options granted under the XMF Share Option Scheme I. Details of movements during the six months ended June 30, 2020 of share options granted under the XMF Share Option Scheme I are as follows:

Name	Date of grant	Operation period	Number of XMF Shares represented by the option granted	Number of options exercised during the period	Numbers of options as of June 30, 2020	Subscription price
Lei Jun	June 17, 2018	20 years from the date of grant	42,070,000	—	42,070,000	RMB3.8325

As of June 30, 2020, no options had been granted, agreed to be granted pursuant to the XMF Share Option Scheme II since its adoption. The total number of XMF Shares available for grant under the XMF Share Option Scheme II was 107,930,000 XMF Shares, representing 107.93% of the issued share capital of Xiaomi Finance as at the Latest Practicable Date and 43.17% of the issued share capital of Xiaomi Finance assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised.

4. Pinecone Share Option Schemes

The Pinecone Share Option Scheme I was adopted pursuant to the written resolutions of the shareholders of Pinecone International passed on July 30, 2015. The Pinecone Share Option Scheme I is not subject to Chapter 17 of the Listing Rules. The purpose of the Pinecone Share Option Scheme I is to promote the success of Pinecone International and the interests of its shareholders by providing a means through which Pinecone International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of awarded recipients with those of Pinecone International's shareholders generally.

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

As of June 30, 2020, there were 56,706 outstanding Pinecone Options granted under the Pinecone Share Option Scheme I. The aggregate number of underlying Pinecone Ordinary Shares pursuant to the Pinecone Options granted is 9,532,868 Pinecone Ordinary Shares.

OTHER INFORMATION

Details of movements during the six months ended June 30, 2020 of Pinecone Options granted under the Pinecone Share Option Scheme I are as follows:

Grantees in aggregate	Date of grant	Vesting period	Number of share options			Exercise price (US\$)
			Outstanding as of January 1, 2020	Cancelled/ Lapsed during the period	Outstanding as of June 30, 2020	
177	Between May 18, 2015 to June 8, 2018	4 years	69,307	(12,601)	56,706	0.0001 to 1.0377

As of June 30, 2020, no options under the Pinecone Share Option Scheme II had been granted or agreed to be granted since its adoption. The total number of Pinecone Ordinary Shares available for grant under the Pinecone Share Option Scheme II was 2,467,132 Pinecone Ordinary Shares, representing 9.87% of the issued share capital of Pinecone International as at the Latest Practicable Date.

Share Award Scheme

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

During the six months ended June 30, 2020, a total of 85,665,525 award shares had been granted under the Share Award Scheme, all of which were granted to third parties independent of the Company and its connected persons.

Details of movements during the six months ended June 30, 2020 of award shares granted under the Share Award Scheme are as follows:

Grantees in aggregate	Dates of grant	Number of award shares				Held at June 30, 2020
		Held at January 1, 2020	Granted during the period	Exercised during the period	Lapsed during the period	
1,646	January 6, 2020	–	48,925,550	–	(2,431,627)	46,493,923
1,849	April 1, 2020	–	36,739,975	–	(1,001,157)	35,738,818

Further details of the Share Award Scheme are set out in Note 25 to the interim financial information.

Weighted Voting Rights

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

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

As of June 30, 2020, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,226,640,526 Class A Shares, representing approximately 51.21% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 2,268,447,815 Class A Shares, representing 27.48% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters.

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Class A Shares may be converted into Class B Shares on a one-to-one ratio. As of June 30, 2020, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 6,495,088,341 Class B Shares, representing 36.92% of the total number of issued and outstanding Class B Shares or 26.97% of the issued share capital of the Company.

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

- (i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of the Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;
- (ii) when the Class A Shareholders have transferred to another person the beneficial ownership of, or economic interest in, all of the Class A Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;
- (iii) where a vehicle holding Class A Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules; or
- (iv) when all of the Class A Shares have been converted to Class B Shares.

Compliance with the Corporate Governance Code

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

Save for code provision A.2.1 of the CG Code, the Company has complied with all the code provisions set out in the CG Code during the six months ended June 30, 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 the chairman of the Board and chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code throughout the six months ended June 30, 2020.

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

During the six months ended June 30, 2020 and up to the Latest Practicable Date, 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	48,410,000	10.52	10.12	499,541,868
Total	48,410,000			499,541,868

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.

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

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

Mr. Lei Jun, an executive Director, is the chairman of Kingsoft Cloud Holdings Limited (NASDAQ ticker: KC) which has been listed on NASDAQ in May 2020.

Mr. Chew Shou Zi, an executive Director, is a director of Kingsoft Cloud Holdings Limited (NASDAQ ticker: KC) which has been listed on NASDAQ in May 2020.

Mr. Liu Qin, a non-executive Director, is a director of Agora, Inc. (NASDAQ ticker: API) which has been listed on NASDAQ in June 2020 and an independent director of Xpeng Inc. (NYSE ticker: XPEV) which has been listed on New York Stock Exchange in August 2020.

Professor Tong Wai Cheung Timothy, an independent non-executive Director, has been appointed as a non-executive independent director of GP Industries Limited (SGX stock code: G20) in April 2020.

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 Listing

The net proceeds received by the Company from the Global Offering (as defined in the Prospectus) 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 and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs.

As of June 30, 2020, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from Global Offering (HK\$ million)	Unutilized amount as of December 31, 2019 (HK\$ million)	Utilization as of June 30, 2020 (HK\$ million)	Unutilized amount as of June 30, 2020 (HK\$ million)
Research and development to develop core in-house products	8,268.3	—	N/A	N/A
Investments to expand and strengthen ecosystem	8,268.3	4,500.3	6,402.0	1,866.3
Global expansion	8,268.3	—	N/A	N/A
Working capital and other general corporate purposes	2,756.1	—	N/A	N/A

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, Liu Qin, Chen Dongsheng and Wong Shun Tak. 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, 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.

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.

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Corporate Governance Committee

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

The following is a summary of work performed by the Corporate Governance Committee during the six months ended June 30, 2020:

- Reviewed the policies and practices of the Company on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include Code for Securities Transactions by Directors and Relevant Employees, board diversity policy, shareholders' communication policy, procedures for nomination of director by shareholders, disclosure of information policy, connected transactions policy and whistle-blowing policy, dividend policy and other corporate governance policies.
- Reviewed the Company's compliance with the CG Code and the deviation(s) from code provision A.2.1 of the CG Code and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.
- Reviewed the remuneration, the terms of engagement and the re-appointment of the Compliance Advisor.
- Reviewed and monitored the management of conflicts of interests between the Group / the Shareholders on one hand and the WVR Beneficiaries on the other.
- Reviewed and monitored all risks related to the weighted voting rights structure, including connected transactions between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.
- Reviewed the arrangements for the training and continuous professional development of Directors and senior management (in particular, Chapter 8A of the Listing Rules and knowledge in relation to risks relating to the weighted voting rights structure).
- Reviewed and confirmed that the WVR Beneficiaries have been members of the Board throughout the six months ended June 30, 2020 and no matters under Rule 8A.17 of the Listing Rules have occurred during the six months ended June 30, 2020, and they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the six months ended June 30, 2020.

- Sought to ensure effective and on-going communication between the Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.
- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.

In particular, the Corporate Governance Committee has confirmed to the Board it is of the view that the Company has adopted sufficient corporate governance measures to manage the potential conflict of interest between the Group and the beneficiaries of weighted voting rights in order to ensure that the operations and management of the Company are in the interests of the Shareholders as a whole indiscriminately. These measures include the Corporate Governance Committee (a) reviewing and monitoring each transaction contemplated to be entered into by the Group and making a recommendation to the Board prior to the transaction being entered into, of any potential conflict of interest between the Group and/or the Shareholders and any beneficiaries of the weighted voting rights, and (b) ensuring that (i) any connected transactions are disclosed and dealt with in accordance with the requirements of the Listing Rules, (ii) their terms are fair and reasonable and in the interest of the Company and its Shareholders as a whole, (iii) any directors who have a conflict of interest abstain from voting on the relevant board resolution, and (iv) the Compliance Advisor is consulted on any matters related to the transactions involving the beneficiaries of weighted voting rights or a potential conflict of interest between the Group and these beneficiaries. The Corporate Governance Committee recommended the Board to continue the implementation of these measures and to periodically review their efficacy towards these objectives.

Having reviewed the remuneration and terms of engagement of the Compliance Advisor, the Corporate Governance Committee confirmed to the Board that it was not aware of any factors that would require it to consider either the removal of the current Compliance Advisor or the appointment of a new compliance advisor. As a result, the Corporate Governance Committee recommended that the Board retain the services of the Compliance Advisor.

Qualification Requirements

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

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

- (a) we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;
- (b) we operate and manage of the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and
- (c) we have registered a number of domain names overseas for the purpose of promoting our products and services.

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

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

Further details of the Contractual Arrangements are set out in the Prospectus and the Company's 2019 annual report published on April 26, 2020.

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.

Events after the Report Period

Save as disclosed in this interim report, there was no other significant events that might affect the Group after June 30, 2020 and up to the Latest Practicable Date.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

To the Board of Directors of Xiaomi Corporation
(incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 50 to 105, which comprises the condensed consolidated balance sheet of Xiaomi Corporation (the “Company”) and its subsidiaries (together, the “Group”) as of June 30, 2020 and the condensed consolidated income statement and the condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 26, 2020

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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	6	53,537,805	51,951,129	103,239,972	95,707,952
Cost of sales	6, 9	(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	9	(3,223,676)	(2,295,294)	(5,848,549)	(4,139,978)
Administrative expenses	9	(836,426)	(723,513)	(1,617,959)	(1,355,535)
Research and development expenses	9	(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	15	2,366,188	(670,653)	2,714,034	1,962,062
Share of gains/(losses) of investments accounted for using the equity method	10	892,645	(12,080)	1,023,383	(157,472)
Other income	7	183,051	406,353	256,778	466,600
Other gains/(losses), net	8	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	11	(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):	12				
Basic		0.189	0.082	0.279	0.214
Diluted		0.183	0.079	0.271	0.206

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months 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	10	(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

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2020

(Expressed in RMB)

	Note	Unaudited As of June 30, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Assets			
Non-current assets			
Property and equipment	13	8,001,825	6,992,331
Intangible assets	14	1,456,254	1,672,002
Long-term bank deposits		2,919,800	590,157
Investments accounted for using the equity method	10	12,082,879	9,300,507
Long-term investments measured at fair value through profit or loss	15	24,712,785	20,679,363
Deferred income tax assets	24	1,509,833	1,283,415
Other non-current assets	20, 21	5,687,964	5,572,346
		56,371,340	69,090,121
Current assets			
Inventories	19	38,856,939	32,585,438
Trade receivables	17	8,472,074	6,948,567
Loan receivables	16	13,089,932	12,723,503
Prepayments and other receivables	18	19,935,731	19,837,018
Short-term investments measured at fair value through other comprehensive income	15	341,766	—
Short-term investments measured at fair value through profit or loss	15	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
		142,142,037	137,539,086
Total assets		198,513,377	183,629,207
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	22	391	388
Reserves	22	89,806,195	81,330,186
		89,806,586	81,330,574
Non-controlling interests		355,786	327,102
Total equity		90,162,372	81,657,676

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2020

(Expressed in RMB)

	Note	Unaudited As of June 30, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	23	9,995,908	4,786,856
Deferred income tax liabilities	24	415,310	579,902
Warranty provision		728,262	667,857
Other non-current liabilities	26	4,524,238	3,756,211
		15,663,718	9,790,826
Current liabilities			
Trade payables	27	60,433,835	59,527,940
Other payables and accruals	28	8,717,155	9,101,343
Advance from customers		7,248,622	8,237,119
Borrowings	23	13,408,668	12,836,555
Income tax liabilities		496,025	479,350
Warranty provision		2,382,982	1,998,398
		92,687,287	92,180,705
Total liabilities		108,351,005	101,971,531
Total equity and liabilities		198,513,377	183,629,207

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

On behalf of the Board

Lei Jun
Director

Lin Bin
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

(Expressed in RMB)

Note	Unaudited Attributable to owners of the Company						Non- controlling interests RMB'000	Total equity RMB'000	
	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000			
Balance at January 1, 2020	388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676	
Comprehensive income									
Profit for the period	—	—	—	—	6,661,643	6,661,643	(8,276)	6,653,367	
Other comprehensive income									
<i>Items that may be reclassified subsequently to profit or loss</i>									
Share of other comprehensive income of investments accounted for using the equity method	10	—	—	16,983	—	16,983	—	16,983	
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		—	—	(4,773)	—	(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	—	2,101	
Currency translation differences		—	—	30,348	—	30,348	5,775	36,123	
<i>Item that will not be reclassified subsequently to profit or loss</i>									
Currency translation differences		—	—	439,556	—	439,556	—	439,556	
Total comprehensive income		—	—	484,215	6,661,643	7,145,858	(2,501)	7,143,357	
Transactions with owners in their capacity as owners									
Purchase of own shares	22	—	(454,872)	—	—	(454,872)	—	(454,872)	
Cancellation of shares	22	—	1,345,663	(1,349,709)	—	(4,046)	—	(4,046)	
Release of ordinary shares from Share Scheme Trusts	22	—	—	309,129	(293,969)	15,160	—	15,160	
Share of other reserves of investments accounted for using the equity method	10	—	—	63,559	—	63,559	—	63,559	
Employees share-based compensation scheme:									
— value of employee services	25	—	—	977,933	—	977,933	185	978,118	
— exercise of share options and restricted stock units	22, 25	2	—	783,397	(665,399)	118,000	—	118,000	
Capital injection from non-controlling interests		—	—	—	—	—	31,000	31,000	
Appropriation to general reserves		—	—	19,246	(19,246)	—	—	—	
Share consideration for acquisition of an associate		1	—	320,384	320,384	640,769	—	640,769	
Others		—	—	—	(26,349)	—	—	(26,349)	
Total transactions with owners in their capacity as owners		3	890,791	63,201	395,405	(19,246)	31,185	1,361,339	
Balance at June 30, 2020		391	(162,031)	43,642,037	8,910,766	37,415,423	89,806,586	355,786	90,162,372

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2020

(Expressed in RMB)

	Note	Unaudited Attributable to owners of the Company						Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Sub-total RMB'000		
Balance at January 1, 2019		377	—	43,851,282	6,447,415	21,023,911	71,322,985	(72,856)	71,250,129
Comprehensive income									
Profit for the period		—	—	—	—	5,077,915	5,077,915	69,387	5,147,302
Other comprehensive income									
<i>Items that may be reclassified subsequently to profit or loss</i>									
Share of other comprehensive loss of investments accounted for using the equity method	10	—	—	—	(14,530)	—	(14,530)	—	(14,530)
Currency translation differences <i>Item that will not be reclassified subsequently to profit or loss</i>		—	—	—	31,006	—	31,006	2,630	33,636
Currency translation differences		—	—	—	81,609	—	81,609	—	81,609
Total comprehensive income		—	—	—	98,085	5,077,915	5,176,000	72,017	5,248,017
Transactions with owners in their capacity as owners									
Purchase of own shares	22	—	(982,910)	—	—	—	(982,910)	—	(982,910)
Cancellation of shares	22	—	171,002	(171,002)	—	—	—	—	—
Release of ordinary shares from Share Scheme Trusts	22	—	—	43,414	(34,523)	—	8,891	—	8,891
Share of other reserves of investments accounted for using the equity method	10	—	—	—	96,842	—	96,842	—	96,842
Employees share-based compensation scheme:									
— value of employee services	25	—	—	—	973,651	—	973,651	(101)	973,550
— exercise of share options and restricted stock units	22, 25	7	—	816,238	(719,810)	—	96,435	—	96,435
Capital injection from non-controlling interests		—	—	—	—	—	—	155,496	155,496
Total transactions with owners in their capacity as owners		7	(811,908)	688,650	316,160	—	192,909	155,395	348,304
Balance at June 30, 2019		384	(811,908)	44,539,932	6,861,660	26,101,826	76,691,894	154,556	76,846,450

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2020

(Expressed in RMB)

	Unaudited	
	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
Cash flows from operating activities		
Cash (used in)/generated from operations	(2,592,853)	11,977,895
Income tax paid	(1,333,394)	(1,062,471)
Net cash (used in)/generated from operating activities	(3,926,247)	10,915,424
Cash flows from investing activities		
Capital expenditures	(1,129,238)	(1,484,780)
Proceeds from disposal of property and equipment	4,368	63,469
Placement of short-term bank deposits	(24,307,105)	(3,106,219)
Withdrawal of short-term bank deposits	26,060,676	2,021,848
Placement of long-term bank deposits	(2,609,643)	(201,106)
Purchase of short-term investments measured at fair value through profit or loss	(53,600,058)	(56,194,700)
Proceeds from maturity of short-term investments measured at fair value through profit or loss	52,970,448	49,795,524
Purchase of short-term investments measured at fair value through other comprehensive income	(339,665)	—
Interest income received	601,361	439,415
Investment income received	208,575	132,675
Purchase of long-term investments measured at fair value through profit or loss	(3,630,997)	(2,399,499)
Proceeds from disposal of long-term investments measured at fair value through profit or loss	2,739,977	2,703,687
Purchase of investments accounted for using the equity method	(1,220,224)	—
Proceeds from disposal of investments accounted for using the equity method	—	74,848
Dividends received	39,765	124,284
Net cash used in investing activities	(4,211,760)	(8,030,554)

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
Cash flows from financing activities		
Proceeds from borrowings	17,582,749	6,400,670
Repayment of borrowings	(12,245,760)	(3,568,042)
Finance expenses paid	(164,006)	(116,517)
Placement of restricted cash	(30,190)	—
Withdrawal of restricted cash	200,239	95
Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary	—	(167,400)
Net proceeds from exercise of share options	131,236	464,124
Payments for shares repurchase	(454,872)	(982,910)
Capital contribution from non-controlling interests	31,000	155,496
Payment of lease liabilities	(257,022)	(293,517)
Net cash generated from financing activities	4,793,374	1,891,999
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	268,088	(85,988)
Cash and cash equivalents at end of the period	22,843,316	34,921,028

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the “**Company**”), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Uglund 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 condensed consolidated balance sheet as of June 30, 2020, the condensed consolidated income statement and the condensed consolidated statement of comprehensive income for the three-month and six-month periods then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**Interim Financial Information**”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information was approved by the board of directors of the Company on August 26, 2020.

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**”).

After the outbreak of the coronavirus disease (“**COVID-19**”) in early 2020, a series of precautionary and control measures have been implemented across the country. The outbreak has been effectively contained in China, but the global spread of COVID-19 is still evolving and there still remains uncertainty over the future development. The COVID-19 dampened the Group operations to some extent for the first half of 2020. The Group will pay close attention to the development of the COVID-19 outbreak and continuously evaluate its impact on the financial position and operating results of the Group.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

2 Basis of preparation (continued)

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”).

3 Significant accounting policies

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2019, as described in the 2019 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, 2020 and are applicable for the Group:

- Amendment to IFRS 3 on Definition of a Business
- Amendments to IAS 1 and IAS 8 on Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7 on Interest Rate Benchmark Reform and its Effects on Financial Reporting — Phase 1
- Revised Conceptual Framework for Financial Reporting

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group.

4 Significant accounting estimates

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

4 Significant accounting estimates (continued)

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the 2019 Financial Statements.

5 Financial risk management and financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's policies on financial risk management were set out in the 2019 Financial Statements and there have been no significant changes in the financial risk management policies for the three months and six months ended June 30, 2020.

5.2 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at June 30, 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
Assets				
Long-term investments measured at fair value through profit or loss (Note 15)	4,136,749	—	20,576,036	24,712,785
Short-term investments measured at fair value through profit or loss (Note 15)	—	—	17,159,356	17,159,356
Short-term investments measured at fair value through other comprehensive income (Note 15)	341,766	—	—	341,766
	4,478,515	—	37,735,392	42,213,907

The following table presents the Group's financial assets that are measured at fair value at December 31, 2019.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)				
Assets				
Long-term investments measured at fair value through profit or loss (Note 15)	3,651,090	—	17,028,273	20,679,363
Short-term investments measured at fair value through profit or loss (Note 15)	—	—	16,463,390	16,463,390
	3,651,090	—	33,491,663	37,142,753

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

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

Specific valuation techniques used to value financial instruments include:

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

Level 3 instruments of the Group's assets include long-term investments measured at fair value through profit or loss and short-term investments measured at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)**5.2 Fair value estimation (continued)****(c) Financial instruments in level 3 (continued)**

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the six months ended June 30, 2020 and 2019.

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	17,028,273	13,420,310
Additions	2,696,870	1,754,832
Disposals	(216,051)	(92,496)
Changes in fair value	923,080	865,075
Transfer to long-term investments accounted for using the equity method	—	(958,701)
Transfer to level 1 financial instruments	—	(896,802)
Exchange gains	143,864	24,893
At the end of the period	20,576,036	14,117,111
Net unrealized gains for the period	881,858	513,792

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the six months ended June 30, 2020 and 2019.

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	16,463,390	6,648,526
Additions	53,600,058	56,194,700
Disposals	(53,179,023)	(49,906,901)
Changes in fair value	274,931	185,969
At the end of the period	17,159,356	13,122,294
Net unrealized gains for the period	122,537	53,294

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

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies (Note 15) and certain listed companies for which sale is restricted for a specified period (Note 15), and short-term investments measured at fair value through profit or loss (Note 15). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs	Relationship of unobservable inputs to fair values	
	As of June 30, 2020	As of December 31, 2019		As of June 30, 2020	As of December 31, 2019	
	RMB'000 (Unaudited)	RMB'000 (Audited)				
Long-term investments measured at fair value through profit or loss	20,576,036	17,028,273	Expected volatility	39%–71%	26%–59%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	10%–25%	5%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	0.2%–5%	2%–3%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	17,159,356	16,463,390	Expected rate of return	2%–4%	2%–5%	The higher the expected rate of return, the higher the fair value

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the six months ended June 30, 2020.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowing, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

6 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. The selling and marketing expenses, administrative expenses and research and development expenses are not included in the measure of the segments' performance which is used by CODM as a basis for the purpose of resource allocation and assessment of segment performance. Fair value changes on investments measured at fair value through profit or loss, share of gains/(losses) of investments accounted for using the equity method, other income, other gains/(losses), net, finance (expense)/income, net, and income tax expenses are also not allocated to individual operating segments.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services (including online game and fintech business). Others segment primarily comprises revenue from the Group's hardware repair services for products and sale of materials.

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the 2019 Financial Statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the three months and six months ended June 30, 2020 and 2019. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

The segment results for the three months and six months ended June 30, 2020 and 2019 are as follows:

	Three months ended June 30, 2020				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	31,627,549	15,252,868	5,907,621	749,767	53,537,805
Cost of sales	(29,336,590)	(13,515,173)	(2,347,499)	(637,097)	(45,836,359)
Gross profit	2,290,959	1,737,695	3,560,122	112,670	7,701,446

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

	Six months ended June 30, 2020				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	61,952,272	28,237,076	11,808,317	1,242,307	103,239,972
Cost of sales	(57,208,924)	(24,758,105)	(4,876,643)	(1,136,397)	(87,980,069)
Gross profit	4,743,348	3,478,971	6,931,674	105,910	15,259,903

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

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

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	21,851,031	42.1	48,860,733	47.3	38,647,365	40.4
	53,537,805		51,951,129		103,239,972		95,707,952	

Note:

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

The major customers which contributed more than 10% of the total revenue of the Group for the three months and six months ended June 30, 2020 and 2019 are listed as below:

	Three months ended June 30,		Six months ended June 30,	
	2020 % (Unaudited)	2019 % (Unaudited)	2020 % (Unaudited)	2019 % (Unaudited)
Customer A	11.8	14.3	10.7	12.7

All the revenues derived from other single external customer were less than 10% of the Group's total revenues during the three months and six months ended June 30, 2020.

7 Other income

	Three months ended June 30,		Six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Government grants	57,996	173,952	72,984	178,314
Value-added tax and other tax refunds	13,651	15,157	44,080	15,268
Dividend income	38,978	116,657	39,765	124,284
Investment income from short-term investments measured at fair value through profit or loss	—	84,528	—	132,675
Additional deduction of input value-added tax	72,426	16,059	99,949	16,059
	183,051	406,353	256,778	466,600

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

8 Other gains/(losses), net

	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)
Gains/(losses) on disposal of investments accounted for using the equity method	282,003	—	282,003	(13,547)
Foreign exchanges gains/(losses), net	33,793	(12,504)	(469,553)	(6,857)
Impairment on investments accounted for using the equity method	—	—	(25,976)	—
Others	(27,725)	(58,776)	(8,593)	(72,562)
	288,071	(71,280)	(222,119)	(92,966)

9 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 (Note 19)	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

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

10 Investments accounted for using the equity method

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Investments in associate accounted for using the equity method		
— Listed entities	7,095,711	5,499,386
— Unlisted entities	4,987,168	3,801,121
	12,082,879	9,300,507

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
At the beginning of the period	9,300,507	8,639,238
Additions (Note (a))	1,889,079	987,944
Disposals (Note (b))	(178,192)	(88,395)
Share of gains/(losses) (Note (c))	1,023,383	(157,472)
Share of other comprehensive income/(loss)	16,983	(14,530)
Share of changes of other reserves	63,559	96,842
Dividends from associates	(6,464)	(8,755)
Impairment provision	(25,976)	—
At the end of the period	12,082,879	9,454,872

Notes:

- (a) On May 21, 2020, the Group entered into a share purchase agreement with shareholders of Zimi International Incorporation (“Zimi”), pursuant to which, the Group has agreed to acquire 26,995,672 ordinary shares of Zimi, representing an aggregate of 27.44% of the entire issued share capital of Zimi, at a total consideration of approximately RMB823,311,000. The consideration shall be satisfied by cash of approximately RMB182,543,000 and issue of the Company’s shares of 54,379,044, of which 50% shares have been issued on June 16, 2020, the closing date, and the remaining would be issued in four equal installments within ten business days after each of the first four anniversaries following the closing, subject to the key performance indicators being reached.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

10 Investments accounted for using the equity method (continued)

Notes (continued):

- (b) On January 14, 2020, the Group entered into an agreement with Itui International Inc. (“Itui”) to exchange all of the 93,653,572 ordinary shares of Xunlei Limited held by the Group for 35,894,849 Series D preferred shares of Itui, which was recognized as financial assets at fair value through profit or loss amounting to RMB441,347,000. This transaction was closed on April 14, 2020.
- (c) On February 21, 2020, Beijing Roborock Technology Co., Ltd., an associate primarily engaging in the operation of developing and selling robotic vacuum cleaners, was successfully listed on the Science and Technology Innovation Board of Shanghai Stock Exchange (“STAR Market”), a dilution gain of RMB344,381,000 was recognized accordingly.

On May 8, 2020, Kingsoft Cloud Holdings Limited, an associate primarily engaging in the operation of cloud services, were successfully listed on the Nasdaq Global Select Market (“NASDAQ Market”), a dilution gain of RMB1,039,517,000 was recognized accordingly.

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation and other relevant facts and circumstances, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

11 Income tax expenses

The income tax expenses of the Group during the periods presented are analyzed 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)
Current income tax	527,121	620,313	1,059,527	1,271,610
Deferred income tax	(152,798)	(141,553)	(391,009)	(267,454)
Income tax expenses	374,323	478,760	668,518	1,004,156

Income tax expenses is recognized based on management’s best knowledge of the income tax rates that would be applicable to the full financial year.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

11 Income tax expenses (continued)

Notes:

(a) Enterprise income tax in mainland China ("EIT")

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 25), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("BVI") are exempt from BVI income taxes.

(c) Hong Kong income tax

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

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 25.17% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries in mainland China are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. ("Xiaomi Mobile") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Xiaomi Mobile enjoys the preferential EIT rate of 10% for the periods ended June 30, 2020 and 2019.

Xiaomi Digital Technology Co., Ltd. was qualified as a "High and New Technology Enterprise" in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020.

NOTES TO THE INTERIM FINANCIAL INFORMATION

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11 Income tax expenses (continued)

Notes (continued):

(f) Super Deduction for research and development expense

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

(g) Withholding tax in mainland China ("WHT")

According to the New Corporate Income Tax Law ("New EIT Law"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings of these subsidiaries was accrued as of the end of each reporting period.

12 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)	23,827,382	23,770,504	23,849,571	23,727,744
Basic earnings per share (expressed in RMB per share)	0.189	0.082	0.279	0.214

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

12 Earnings per share (continued)

(b) Diluted

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

	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)	692,017	905,405	725,455	962,640
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,519,399	24,675,909	24,575,026	24,690,384
Diluted earnings per share (expressed in RMB per share)	0.183	0.079	0.271	0.206

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

13 Property and equipment

	Electronic equipment	Office equipment	Buildings	Leasehold improvements	Construction in progress (Note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Six months ended June 30, 2020						
Opening net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Currency translation differences	(396)	(186)	—	(1,713)	(2)	(2,297)
Additions	294,048	1,634	—	161,609	896,497	1,353,788
Transfer from construction in progress to buildings	—	—	642,272	—	(642,272)	—
Disposals	(4,212)	—	—	(11,190)	(15,850)	(31,252)
Transfer to investment properties	—	—	—	—	(75,752)	(75,752)
Depreciation charge	(88,814)	(1,032)	(28,113)	(117,034)	—	(234,993)
Closing net book amount	659,052	7,789	2,863,905	313,032	4,158,047	8,001,825
At June 30, 2020						
Cost	1,174,893	24,157	2,909,654	924,337	4,158,047	9,191,088
Accumulated depreciation	(515,841)	(16,368)	(45,749)	(611,305)	—	(1,189,263)
Net book amount	659,052	7,789	2,863,905	313,032	4,158,047	8,001,825
(Unaudited)						
Six months ended June 30, 2019						
Opening net book amount	263,124	18,305	—	243,553	4,543,071	5,068,053
Currency translation differences	438	129	—	(1,530)	3	(960)
Additions	120,961	500	—	78,927	857,089	1,057,477
Disposals/transfer	(7,449)	(10,823)	—	—	(64,117)	(82,389)
Depreciation charge	(60,249)	(1,558)	—	(89,250)	—	(151,057)
Closing net book amount	316,825	6,553	—	231,700	5,336,046	5,891,124
At June 30, 2019						
Cost	717,399	21,144	—	631,398	5,336,046	6,705,987
Accumulated depreciation	(400,574)	(14,591)	—	(399,698)	—	(814,863)
Net book amount	316,825	6,553	—	231,700	5,336,046	5,891,124

Note: Construction in progress as of June 30, 2020 and 2019 mainly comprises new office buildings being constructed in mainland China.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

14 Intangible assets

	Goodwill	License	Trademarks, patents and domain name	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Six months ended June 30, 2020					
Opening net book amount	248,167	699,401	550,810	173,624	1,672,002
Currency translation differences	—	(13)	2,413	579	2,979
Additions	—	7	633	56,442	57,082
Disposals	—	—	(1,548)	(29,777)	(31,325)
Amortization charge	—	(165,830)	(49,679)	(28,975)	(244,484)
Closing net book amount	248,167	533,565	502,629	171,893	1,456,254
At June 30, 2020					
Cost	248,167	1,427,014	1,079,506	367,553	3,122,240
Accumulated amortization	—	(893,449)	(576,877)	(195,660)	(1,665,986)
Net book amount	248,167	533,565	502,629	171,893	1,456,254
(Unaudited)					
Six months ended June 30, 2019					
Opening net book amount	282,090	1,012,413	667,919	98,770	2,061,192
Currency translation differences	—	20	175	416	611
Additions	—	17,458	6,092	9,122	32,672
Disposals	(33,923)	—	(9,506)	(233)	(43,662)
Amortization charge	—	(165,899)	(59,275)	(22,613)	(247,787)
Closing net book amount	248,167	863,992	605,405	85,462	1,803,026
At June 30, 2019					
Cost	248,167	1,425,678	1,076,736	233,880	2,984,461
Accumulated amortization	—	(561,686)	(471,331)	(148,418)	(1,181,435)
Net book amount	248,167	863,992	605,405	85,462	1,803,026

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

15 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 (Note (a))	17,159,356	16,463,390
Short-term investments measured at fair value through other comprehensive income (Note (b))	341,766	—
	17,501,122	16,463,390
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments (Note (c))	8,587,610	7,272,454
— Preferred shares investments (Note (c)(d))	16,125,175	13,406,909
	24,712,785	20,679,363

Notes:

- (a) Represents RMB-denominated wealth management products (“WMPs”) offered by various financial institutions in mainland China. All the WMPs will mature within one year with variable return rates indexed to the performance of underlying assets including government bonds, debt instruments, etc. They were measured at fair values (level 3: inputs for the assets or liabilities that are not based on observable market data (that is unobservable inputs)). The fair values were determined based on cash flow discounted assuming the expected return stated in the contracts will be obtained upon maturity.
- (b) Short-term investments measured at fair value through other comprehensive income are debt securities where the contractual cash flows are solely principal and interest, and the objective of the Group’s business model is achieved both by collecting contractual cash flows and selling financial assets. The fair value of such debt securities was determined based on market price.
- (c) The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

15 Investments (continued)

Notes (continued):

- (d) For the six months ended June 30, 2020, the Group made aggregate preferred shares investments of RMB2,619,839,000. These investees are principally engaged in sales of goods and provision of internet services.

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.

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
	2,366,188	(670,653)	2,714,034	1,962,062

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

16 Loan receivables

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Unsecured loan	15,521,679	14,393,240
Less: credit loss allowance	(2,431,747)	(1,669,737)
	13,089,932	12,723,503

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB. The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("ECL") under IFRS 9 Financial Instruments. The key judgments and assumptions include determination of significant increase in credit risk, definition of default and credit-impaired assets, projecting the PD, LGD and EAD, forward-looking information incorporated in the ECL models, and grouping of instruments for losses measured on a collective basis.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

17 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	66,649	29,706
	8,598,173	7,064,348
Less: credit loss allowance	(126,099)	(115,781)
	8,472,074	6,948,567

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

Trade receivables balances as of June 30, 2020 and December 31, 2019 mainly represented amounts due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

18 Prepayments and other receivables

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	8,263,520	9,292,072
Recoverable value-added tax and other taxes	6,819,178	6,782,745
Prepayments to suppliers	1,488,926	394,090
Deposits to suppliers	323,374	375,868
Receivables from market development fund	722,345	895,773
Prepaid fees for patent expenses and other prepaid expenses	519,069	413,685
Receivables from employees related to Employee Fund (Note 25)	101,850	103,900
Interest receivables	286,093	254,912
Loans to related parties	31,181	37,802
Receivables related to share options and RSUs granted to employees	183,311	862,545
Others	1,196,884	423,626
	19,935,731	19,837,018

Note: As of June 30, 2020, among the total amount of "Prepayments and other receivables", in addition to the loans to related parties, the other receivables from related parties amounted to RMB304,286,000 (December 31, 2019: 373,071,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

19 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	1,434,654	1,925,785
	40,034,871	33,459,397
Less: provision for impairment (Note (a))	(1,177,932)	(873,959)
	38,856,939	32,585,438

Note:

- (a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statement. The provision for impairment of inventory amounted to RMB1,506,789,000 and RMB2,471,384,000 for the six months ended June 30, 2020 and 2019, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

20 Leases

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
<i>(i) The consolidated balance sheet includes the following amounts relating to leases:</i>		
Right-of-use assets (Note(a))		
Land use rights	3,034,679	2,859,297
Properties	899,548	915,581
Other assets	14,276	58,222
	3,948,503	3,833,100
Lease liabilities (Note(b))		
Current	(338,994)	(399,444)
Non-current	(551,904)	(560,804)
	(890,898)	(960,248)

Notes:

- (a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.
- (b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

20 Leases (continued)

	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)
<i>(ii) The consolidated income statement includes the following amounts relating to leases:</i>				
Depreciation charge of right-of-use assets	100,809	141,647	217,442	278,442
Interest expense (included in finance (expense)/income, net)	11,667	11,438	23,288	20,737
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	198,913	108,515	384,947	245,074
	311,389	261,600	625,677	544,253

21 Other non-current assets

	As of	As of
	June 30,	December 31,
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Right-of-use assets (Note 20)	3,948,503	3,833,100
Investment properties	1,229,217	1,250,932
Others	510,244	488,314
	5,687,964	5,572,346

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

22 Share capital and treasury shares**(a) Share capital****Authorized:**

As of January 1, 2020 and June 30, 2020, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US\$0.0000025 per share.

Issued:

	Number of ordinary shares '000	Nominal value of ordinary shares US\$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2020	24,107,395	59	388	43,578,836
Exercise of share options and RSUs (Note 25)	110,434	—	2	783,397
Shares repurchased and cancelled	(158,727)	—	—	(1,349,709)
Release of ordinary shares from Share Scheme Trusts (i)	—	—	—	309,129
Shares issued for acquisition of an associate	27,294	—	1	320,384
As of June 30, 2020 (unaudited)	24,086,396	59	391	43,642,037

Note:

- (i) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "Share Scheme Trusts").

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

22 Share capital and treasury shares (continued)

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2020	130,240	1,052,822
Shares repurchased	48,410	454,872
Shares cancelled	(158,727)	(1,345,663)
As of June 30, 2020 (unaudited)	19,923	162,031

During the six months ended June 30, 2020, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares '000	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$
April 2020	48,410	10.52	10.12	499,541,868

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

23 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 (Note (a))	3,244,500	2,305,000
Fund raised through trusts (Note (b))	547,500	450,000
Secured borrowings (Note (c))	1,804,544	1,825,856
Unsecured borrowings (Note (d))	4,399,364	206,000
	9,995,908	4,786,856
Included in current liabilities		
Asset-backed securities (Note (a))	2,739,205	2,647,641
Fund raised through trusts (Note (b))	342,285	420,000
Secured borrowings (Note (c))	1,048,008	1,796,701
Unsecured borrowings (Note (d))	9,279,170	7,972,213
	13,408,668	12,836,555

Notes:

- (a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("ABS"). As of June 30, 2020, the total ABS amounting to RMB5,983,705,000 (December 31, 2019: RMB4,952,641,000), which bore interest at 2.59%-7.50% per annum.
- (b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of June 30, 2020, the fund raised through trust amounting to RMB889,785,000 (December 31, 2019: RMB870,000,000), which bore interest at 6.30%-8.00% per annum. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2020 and 2021.
- (c) As of June 30, 2020, RMB2,256,032,000 (December 31, 2019: RMB2,225,856,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB4,082,853,000 (December 31, 2019: RMB4,082,853,000). The interest rate of these borrowings was 4.66%-4.90% per annum. Among of these borrowings, RMB25,744,000 should be repaid by the end of September 7, 2020,

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

23 Borrowings (continued)

Notes (continued):

(c) (continued)

RMB200,000,000 should be repaid by the end of November 10, 2020, RMB25,744,000 should be repaid by the end of March 8, 2021, RMB200,000,000 should be repaid by the end of May 10, 2021, RMB896,050,000 should be repaid by the end of March 23, 2027, RMB470,007,000 should be repaid by the end of December 12, 2027 and RMB438,487,000 should be repaid by the end of September 27, 2032.

As of June 30, 2020, RMB596,520,000 (December 31, 2019: RMB587,815,000) of short-term borrowings were secured by restricted deposits.

(d) As of June 30, 2020, the Group had US\$380,000,000 (equivalent to approximately RMB2,690,210,000) unsecured borrowings relating to a five-year bank loan facility agreement entered into on May 13, 2020 with the available commitment US\$1,200,000,000 (equivalent to approximately RMB8,495,400,000) including US\$480,000,000 (equivalent to approximately RMB3,398,160,000) term loan and US\$720,000,000 (equivalent to approximately RMB5,097,240,000) revolving loan, which will due on May 18, 2025. US\$380,000,000 (equivalent to approximately RMB2,690,210,000) should be repaid by the Group on September 18, 2020.

The Group issued US\$600,000,000 (equivalent to approximately RMB4,247,700,000) senior notes to professional investors on April 29, 2020 with a term to maturity of ten years and at interest rate 3.375% per annum. The net proceeds of the notes issued, after deducting underwriting commissions and certain offering expenses, was approximately US\$589,900,000 (equivalent to approximately RMB4,176,197,000).

The Group issued RMB1,000,000,000 bonds in mainland China on April 2, 2020 with a term to maturity of one year and at coupon rates 2.78% per annum.

The Group had RMB190,000,000 (December 31, 2019: RMB190,000,000) unsecured borrowings with interest rate 6.43% per annum, RMB1,500,000,000 (December 31, 2019: RMB1,500,000,000) unsecured borrowings with interest rate 2.92% per annum, RMB2,312,360,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.85% per annum, RMB305,290,000 (December 31, 2019: nil) unsecured borrowings with interest rate 1 to 3 months London Inter Bank Offered Rate ("LIBOR") + 1% or 0.7% per annum, RMB370,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.00% per annum, RMB6,700,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.50% per annum, RMB65,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 4.57% per annum, all of these borrowings should be repaid by the Group in 2020. The Group had RMB210,000,000 (December 31, 2019: nil) unsecured borrowings with interest rate 3.59% per annum and RMB21,130,000 (December 31, 2019: nil) unsecured borrowings with interest rate 2.05% per annum, which should be repaid by the Group in April and March of 2021, respectively.

The Group had RMB400,000,000 (December 31, 2019: nil) and RMB200,000,000 (December 31, 2019: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in April and June of 2021, respectively.

The Group had RMB206,000,000 (December 31, 2019: RMB206,000,000) unsecured borrowings with interest rate 4.66% per annum which should be repaid by the end of November 26, 2029.

For the six months ended June 30, 2020, the interest rate of the interest-bearing liabilities ranges from 2.05% to 8.00% per annum.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

24 Deferred income tax

The amount of offsetting deferred income tax assets and liabilities is RMB52,416,000 as of June 30, 2020 (December 31, 2019: RMB122,961,000).

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

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	1,406,377	1,405,995
Credited to the consolidated income statement	155,872	214,224
At the end of the period	1,562,249	1,620,219

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

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	(702,863)	(871,395)
Credited to the consolidated income statement	235,137	53,230
At the end of the period	(467,726)	(818,165)

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

25 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the “Xiaomi Corporation 2011 Employee Stock Option Plan” (“**2011 Plan**”) with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the “2012 Employee Stock Incentive Plan” (“**Pre-IPO ESOP**”). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900 as of June 30, 2020 and December 31, 2019. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 2,237,613,083 Class B ordinary shares. As of June 30, 2020, no option has been granted or agreed to be granted pursuant to Post-IPO Share Option Scheme.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders’ approval.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

25 Share-based payments (continued)**Pre-IPO ESOP****Share options granted to employees**

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US\$)
Outstanding as of January 1, 2020	855,801,907	0.12
Forfeited during the period	(14,147,000)	0.33
Transferred to Share Scheme Trusts	(21,172,600)	0.10
Exercised during the period	(110,434,240)	0.15
Outstanding as of June 30, 2020 (unaudited)	710,048,067	0.11
Exercisable as of June 30, 2020 (unaudited)	322,020,977	0.24
Outstanding as of January 1, 2019	1,433,597,913	0.10
Forfeited during the period	(33,925,720)	0.30
Transferred to Share Scheme Trusts	(13,160,410)	0.10
Exercised during the period	(223,352,658)	0.06
Outstanding as of June 30, 2019 (unaudited)	1,163,159,125	0.10
Exercisable as of June 30, 2019 (unaudited)	524,168,465	0.12

The weighted-average remaining contract life for outstanding share options was 5.94 years and 6.22 years as of June 30, 2020 and December 31, 2019, respectively.

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

25 Share-based payments (continued)**Pre-IPO ESOP (continued)****Share options granted to employees (continued)***Fair value of share options (continued)*

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date.

RSUs granted to employees

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

	Number of RSUs	Weighted average grant date fair value per RSU (US\$)
Outstanding as of January 1, 2019	207,161,980	0.23
Exercised during the period	(207,161,980)	0.23
Outstanding as of June 30, 2019 (unaudited)	—	—
Vested as of June 30, 2019 (unaudited)	—	—

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary share. Key assumptions, such as discount rate and projections of future performance, are required to be determined by the Group with best estimate.

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

The total expenses recognized in the consolidated income statements for Pre-IPO ESOP granted to the Group's employees are RMB679,000,000 and RMB955,383,000 for the six months ended June 30, 2020 and 2019, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

25 Share-based payments (continued)**Pre-IPO ESOP (continued)****Share based awards granted to Lei Jun**

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. (“Xiaomi Finance”) pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. No share option was exercised for the six months ended June 30, 2020 and 2019, respectively.

Share Award Scheme**RSUs granted to employees**

Movements in the number of RSUs granted to the Company’s employees under Share Award Scheme and the respective weighted-average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US\$)
Outstanding as of January 1, 2020	90,106,933	1.20
Granted during the period	85,665,525	1.37
Forfeited during the period	(13,406,466)	1.21
Transferred to Share Scheme Trust	(1,819,250)	1.45
Outstanding as of June 30, 2020 (unaudited)	160,546,742	1.29
Exercisable as of June 30, 2020 (unaudited)	616,050	1.15
Outstanding as of January 1, 2019	—	—
Granted during the period	22,466,301	1.45
Forfeited during the period	(696,256)	1.45
Exercised during the period	(1,728,000)	1.45
Outstanding as of June 30, 2019 (unaudited)	20,042,045	1.45
Exercisable as of June 30, 2019 (unaudited)	—	—

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

25 Share-based payments (continued)

Share Award Scheme (continued)

RSUs granted to employees (continued)

The weighted-average remaining contract life for outstanding RSUs was 9.24 years and 9.45 years as of June 30, 2020 and December 31, 2019, respectively.

The total expenses recognized in the consolidated income statements for Share Award Scheme RSU granted to the Group's employees are RMB299,118,000 and RMB18,167,000 for the six months ended June 30, 2020 and 2019, respectively.

Employee fund

On August 31, 2014, the board of directors of the Company approved the establishment of the Xiaomi Development Fund ("Employee Fund") with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "Lockup Period"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of June 30, 2020.

The total expenses recognized in the consolidated income statements for the Employee Fund granted to the Group's employees are RMB110,386,000 and RMB44,747,000 for the six months ended June 30, 2020 and 2019, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Other non-current liabilities

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Liabilities to fund investors (Note (a))	3,868,833	3,074,210
Lease liabilities (Note 20)	551,904	560,804
Others	103,501	121,197
	4,524,238	3,756,211

Note:

- (a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "Hubei Fund"). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

27 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
	60,433,835	59,527,940

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

28 Other payables and accruals

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Amounts collected for third parties	1,411,926	1,428,500
Payroll and welfare payables	894,430	1,165,183
Deposits payable	1,401,199	1,114,853
Employee fund (Note 25)	710,473	604,187
Accrual expenses	728,441	1,202,807
Payables for construction cost	1,519,663	1,275,467
Other taxes payables	262,381	624,350
Lease liabilities (Note 20)	338,994	399,444
Payables related to share options and RSUs granted to employees	146,293	484,896
Guarantee liabilities	246,184	250,465
Others	1,057,171	551,191
	8,717,155	9,101,343

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

29 Contingencies

The Group did not have any material contingent liabilities as of June 30, 2020 and December 31, 2019.

30 Commitments**(a) Capital commitments**

Capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Property and equipment	1,048,702	1,747,044
Intangible assets	33,902	28,810
Investments	115,671	217,506
	1,198,275	1,993,360

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

30 Commitments (continued)**(b) Operating lease commitments**

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

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Not later than 1 year	219,862	305,186

From January 1, 2019, in accordance with IFRS 16 Lease, the Group has recognized right-of-use assets for these leases and the related lease liabilities, except for certain short-term leases, see Note 20 for further information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

31 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Significant transactions with related parties

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(i) Sales of goods and services		
Associates of the Group	716,545	510,015
Associates of Lei Jun	—	2,894
	716,545	512,909
(ii) Purchases of goods and services		
Associates of the Group	15,351,898	11,559,119
Associates of Lei Jun	1,719	321
	15,353,617	11,559,440

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

31 Related party transactions (continued)

(b) Year/period end balances with related parties

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
(i) Trade receivables from related parties		
Associates of the Group	298,742	324,027
(ii) Trade payables to related parties		
Associates of the Group	4,873,979	6,061,497
Associates of Lei Jun	1,553	1,829
	4,875,532	6,063,326
(iii) Other receivables from related parties		
Associates of the Group	304,286	373,071
(iv) Other payables to related parties		
Associates of the Group	618,359	861,736
Controlled by a director	79,466	79,466
Associates of Lei Jun	7,450	7,476
	705,275	948,678
(v) Prepayments		
Associates of the Group	192,755	136,899

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

31 Related party transactions (continued)

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

	As of June 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
(vi) Advance from customers		
Associates of the Group	49,218	28,308
Associates of Lei Jun	14	14
	49,232	28,322

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

(c) Loans to related parties

	Six months ended June 30, 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Loans to associates:		
At the beginning of the period	37,802	7,979
Loans advanced	—	18,758
Interest charged	16	550
Less: allowance for impairment	(6,787)	—
Currency translation differences	150	—
	31,181	27,287

Loans to related parties were unsecured, repayable on demand and carried interest rate at ceiling of 8% per annum (2019: 8%).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

31 Related party transactions (continued)

(d) Key management compensation

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries	12,692	5,817
Discretionary bonuses	—	2,070
Share-based compensation	132,321	222,469
Employer's contribution to pension schedule	458	559
	145,471	230,915

32 Events after the reporting period

On July 2, 2020, a total of 3,000,000 share options to subscribe for Class B ordinary shares were granted under the Post-IPO Share Option Scheme by the Company with exercise price of HK\$13.60 per share, and the shares shall vest between July 2, 2021 to July 2, 2024. Also on July 2, 2020, the Company awarded a total of 23,609,094 Class B ordinary shares to 609 participants under the Share Award Scheme, and the shares shall vest between January 6, 2021 to July 2, 2025. For the above share options and shares awards, other than the service requirement, the vesting is also subject to the certain annual performance conditions on the participants.

DEFINITIONS

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

“Board”	our Board of Directors
“CG Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
“Class A Shares”	class A ordinary shares of the share capital of the Company with a par value of US\$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company’s general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
“Class B Shares”	class B ordinary shares of the share capital of the Company with a par value of US\$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company’s general meetings
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, or “the Company”	Xiaomi Corporation 小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010
“Compliance Advisor”	Guotai Junan Capital Limited, being the compliance advisor of the Company
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”, each a “Consolidated Affiliated Entity”	the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries

DEFINITIONS

“Contractual Arrangements”	the set of agreements entered into by each of the WFOEs and the Onshore Holdcos for the purpose of operations of the Restricted Business of the Group in the PRC
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interested in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited
“Director(s)”	the director(s) of the Company
“Group”, “our Group”, or “the Group”	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements) from time to time
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Latest Practicable Date”	September 15, 2020, being the latest practicable date prior to the bulk printing and publication of this interim report
“Listing”	the listing of the Class B Shares on the Main Board of the Stock Exchange
“Listing Date”	July 9, 2018, the date on which the Shares were listed on the Stock Exchange
“Listing Rules”	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Onshore Holdcos,” each a “Onshore Holdco”	(i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Doukan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, (vii) Beijing Electronic Software and (viii) Youpin Information Technology
“Pinecone International”	Pinecone International Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on November 7, 2014 and our indirect wholly-owned subsidiary
“Pinecone Share Option Scheme I”	the share option scheme adopted by Pinecone International on July 30, 2015 as amended from time to time
“Pinecone Share Option Scheme II”	the share option scheme adopted by Pinecone International on June 17, 2018 as amended from time to time
“Post-IPO Share Option Scheme”	the share option scheme adopted by the Company on June 17, 2018 as amended from time to time
“PRC”	the People’s Republic of China
“Pre-IPO ESOP”	the pre-IPO employee stock incentive scheme adopted by the Company dated May 5, 2011 and superseded on August 24, 2012, as amended from time to time
“Prospectus”	the prospectus of the Company dated June 25, 2018

DEFINITIONS

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

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

DEFINITIONS

“Xiaomi Pictures”	Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity
“Xiaomi Youpin Technology”	Xiaomi Youpin Technology Co. Ltd.* (小米有品科技有限公司), a limited liability company established under the laws of mainland China on May 8, 2018 and our indirect wholly-owned subsidiary
“XMF Share Option Scheme I”	the first share option scheme adopted by Xiaomi Finance on June 17, 2018, as amended from time to time
“XMF Share Option Scheme II”	the second share option scheme adopted by Xiaomi Finance on June 17, 2018
“%”	per cent



小米十周年

XIAOMI 10th ANNIVERSARY
2010-2020