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XIAOMI CORPORATION

小米集团

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

(Stock Code: 1810)

RESULTS ANNOUNCEMENT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020

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

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

KEY HIGHLIGHTS

	Unaudited			
	Three months ended			Quarter-
	September 30,	September 30,	Year-	June 30, over-quarter
	2020	2019	over-year	2020 change
			change	
	(RMB in millions, unless specified)			
Revenue	72,162.8	53,661.0	34.5%	53,537.8 34.8%
Gross profit	10,165.7	8,236.4	23.4%	7,701.4 32.0%
Operating profit	6,696.6	3,112.7	115.1%	5,413.0 23.7%
Profit before income tax	5,450.7	3,294.8	65.4%	4,867.8 12.0%
Profit for the period	4,864.4	2,519.4	93.1%	4,493.5 8.3%
Non-IFRS measure:				
Adjusted Net Profit	4,128.3	3,472.1	18.9%	3,373.2 22.4%

	Unaudited		
	Nine months ended		
	September 30,	September 30,	Year-over-
	2020	2019	year change
	(RMB in millions, unless specified)		
Revenue	175,402.8	149,369.0	17.4%
Gross profit	25,425.6	20,710.7	22.8%
Operating profit	14,432.8	9,063.1	59.2%
Profit before income tax	12,772.6	9,446.3	35.2%
Profit for the period	11,517.7	7,666.7	50.2%
Non-IFRS measure: Adjusted Net Profit	9,802.0	9,187.9	6.7%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

In the third quarter of 2020, our total revenue amounted to RMB72.2 billion, representing an increase of 34.5% year-over-year; adjusted net profit for the period was RMB4.1 billion, representing an increase of 18.9% year-over-year. Despite the COVID-19 impact, we remain focused on the execution of our strategies and all of our business segments continued to grow, demonstrating the strength and resilience of our business fundamentals. Notably, both our total revenue and adjusted net profit reached record highs in the quarter.

In the third quarter of 2020, our commitment to the core strategy of “Smartphone×AIoT” continued to underpin our robust performance. Our global smartphone shipments increased by 45.3% year-over-year to 46.6 million units in the third quarter of 2020. We achieved the highest year-over-year smartphone shipments growth rate among the top five smartphone companies globally, according to Canalys. Our global smartphone shipments rose to the 3rd position in the third quarter of 2020, with an all-time high market share of 13.5%, according to Canalys. Driven by the strong growth of smartphone shipments, in September 2020, the global monthly active users (“MAU”) of MIUI reached 368.2 million, an increase of 26.3% year-over-year. As of September 30, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 289.5 million, representing an increase of 35.8% year-over-year. Our AI assistant “小愛同學” had 78.4 million MAU in September 2020, representing a year-over-year increase of 35.5%.

Our overseas business continued to demonstrate robust growth momentum. Our revenue from overseas markets amounted to a record high of RMB39.8 billion in the third quarter of 2020, representing a year-over-year increase of 52.1%. According to Canalys, our smartphone shipments in Europe grew 90.7% year-over-year, achieving an 18.7% market share. We maintained top 3 position in terms of smartphone shipments for the 2nd consecutive quarter in Europe and reached top 3 position in the Western European market for the first time.

In the third quarter of 2020, we realized strong growth in mainland China and recorded an 18.9% increase in smartphone shipments year-over-year, becoming the only one of the top five smartphone companies to achieve positive growth in this market, according to Canalys.

2. Smartphones

In the third quarter of 2020, our smartphone business grew significantly, highlighted by record revenue and shipments. Smartphone revenue amounted to RMB47.6 billion in the quarter, representing an increase of 47.5% year-over-year, while smartphone shipments totaled 46.6 million units, an increase of 45.3% year-over-year. According to Canalys, in the third quarter of 2020, we ranked 3rd globally in terms of smartphone shipments, with a market share of 13.5%.

In the third quarter of 2020, we further expanded our smartphone business in mainland China, achieving growth in both volume and average selling price (“ASP”). According to Canalys, our smartphone shipments market share in mainland China climbed to 12.6% in the third quarter of 2020 from 9.0% in the same period of 2019, maintaining a top four position. Meanwhile, the ASP of our smartphones in mainland China increased by 14.7% year-over-year, driven by a higher percentage of sales from our premium smartphones. Our leading advantages in online channels also continued to expand. According to third-party data, our smartphone market share in terms of online shipments increased from 18.5% in the first quarter of 2020 to 25.7% in the third quarter of 2020. During the Singles’ Day shopping festival in 2020, we ranked 1st in sales volume among Android smartphones on Tmall.com, JD.com, and Suning.com.

In the third quarter of 2020, we continued to execute our dual brand strategy, launching highly competitive products at different price points, and making significant breakthroughs in the premium smartphone market. In August 2020, around the time of the Group’s 10th anniversary, our Xiaomi brand unveiled *Mi 10 Ultra*, sporting our most cutting-edge technologies, with prices starting from RMB5,299. Upon its launch, *Mi 10 Ultra* was extremely popular. In September 2020, Xiaomi unveiled *Mi 10T and Mi 10T Pro* targeting the overseas markets, featuring a Snapdragon 865 processor and a 144Hz refresh rate display. These models are also equipped with 64MP and 108MP high definition cameras, with prices starting from EUR499 and EUR599, respectively. In the first 10 months of 2020, we sold more than 8 million smartphones globally with retail price points at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets.

Our Redmi brand unveiled *Redmi K30 Ultra* and *Redmi K30S Ultra* in the third quarter of 2020. *Redmi K30 Ultra* is equipped with Dimensity 1000+ 5G flagship processor and features a 120Hz AMOLED full screen display, while *Redmi K30S Ultra* sports a Snapdragon 865 processor and a 144Hz refresh rate display. These two models are tailored to different users’ preferences, each creating remarkable market appeal with high price-to-performance ratio. Moreover, the entry-level *Redmi 9* series has been extremely popular since first introduced in June 2020 and had sold more than 14 million units worldwide as of September 30, 2020. According to Canalys, Redmi accounted for 3 of the world’s top 10 best-selling smartphones in the third quarter of 2020.

We believe our technological capabilities empower us to continually make new breakthroughs in our products. Looking ahead, we will continue to invest in research and development, exploring advanced technologies for smartphones, and spearheading industry advancements in key smartphone features such as camera and fast charging.

3. IoT and lifestyle products

Built on the large user base and new retail capabilities bolstered by our “Smartphone×AIoT” strategy, in the third quarter of 2020, revenue from our IoT and lifestyle products segment grew to RMB18.1 billion, representing an increase of 16.1% year-over-year.

In the third quarter of 2020, our smart TV business maintained its leadership position. Global shipments of our smart TVs reached 3.1 million units. According to All View Cloud (“AVC”), in the third quarter of 2020, our TV shipments ranked No.1 in mainland China for the seventh consecutive quarter, and maintained a top five position globally.

As a market leader in smart TVs, we further solidified our position in the premium market and introduced a number of flagship products within the Mi TV Master Series in the third quarter of 2020. Following the August debut of the *Mi TV LUX Transparent Edition*, the world’s first mass-produced transparent TV, we launched the *Mi TV LUX 82”* and the *Mi TV LUX 82” Pro* in September 2020. *Mi TV LUX 82”* offers great price-to-performance ratio among 4K TVs, with prices starting from RMB9,999. *Mi TV LUX 82” Pro* introduced cutting-edge Mini LED backlight technology that enriches images with incredible layers of details and definitions, and is priced starting from RMB49,999.

In the third quarter of 2020, we introduced a series of highly popular new products including *Mi Curved Gaming Monitor 34”*, *Xiaomi Mijia Internet Direct Drive Washing and Drying*, *Xiaomi Mijia Smart Steaming Oven*, and *Mi True Wireless Earphones Air 2 Pro*, etc., to continuously broaden our product portfolio and bring innovative technologies to our users. We also maintained a leading position in a wide array of IoT products. According to “IDC PRC Quarterly Smart Home Device Tracker, 2020Q2” and “IDC PRC Quarterly Wearable Device Tracker, 2020Q2”, in the second quarter of 2020, we ranked among the top 3 in shipments in various categories in mainland China, including smart door locks, air purifiers, robot vacuum cleaners, TWS earbuds, wearable bands, etc.

In the third quarter of 2020, our IoT business continued its strong growth trajectory in overseas markets. Revenue from IoT and lifestyle products in overseas markets increased by 56.2% year-over-year, reaching a historical high. In addition, overseas revenue from certain key categories surpassed that in mainland China in the quarter, such as wearable bands, electric scooters, and robot vacuum cleaners. Given the huge growth potential, we intend to fully leverage our highly efficient new retail channels and large user base to introduce more popular IoT products into overseas markets.

4. Internet services

In the third quarter of 2020, revenue from our internet services segment amounted to RMB5.8 billion, representing an increase of 8.7% year-over-year.

In the third quarter of 2020, our user base continued to expand rapidly. In September 2020, the MAU of MIUI increased by 26.3% year-over-year to 368.2 million, while the mainland China MAU of MIUI reached 109.4 million. In September 2020, MAU of our smart TVs and *Mi Box* reached 35.8 million, representing an increase of 49.9% year-over-year. As of September 30, 2020, the number of TV paid subscribers increased by 28.2% year-over-year to 4.2 million.

In the third quarter of 2020, advertising revenue reached a record high of RMB3.3 billion, representing an increase of 13.7% year-over-year, primarily attributable to the enhanced monetization efficiency and strong growth in overseas advertising revenue.

In the third quarter of 2020, our gaming revenue decreased by 1.9% year-over-year to RMB0.8 billion, partly due to the reduced time spent by users on entertainment activity as daily activities move toward normalcy in mainland China. Going forward, we will continue to leverage our deep understanding of mobile user behavior and various touchpoints on our devices to further enhance our game distribution capabilities.

On October 18, 2020, we rebranded our fintech business as “Airstar Digital Technology”. It focuses on three main areas: Supply Chain Finance, Retail Finance, and Financial Technology. Drawing on our technological capabilities in big data and AI, Airstar Digital Technology will provide financial services to an increasing base of companies and retail consumers, and empower digital transformation of financial institutions.

In the third quarter of 2020, overseas internet services revenue increased by 75.6% year-over-year to RMB0.7 billion, accounting for 12.0% of the total internet services revenue. With the rapid growth in smartphone shipments in overseas markets, our overseas user base continued to expand, especially in Europe and other developed markets, which increased the average revenue per user of overseas internet services. We are dedicated to enriching our internet services offerings and improving user engagement globally.

5. Overseas markets

In the third quarter of 2020, our revenue from overseas markets increased 52.1% year-over-year to RMB39.8 billion. This marks record high quarterly overseas revenue and overseas revenue contribution to our total revenue.

In the third quarter of 2020, we achieved strong growth in major markets across the globe. According to Canalys, in the third quarter, our smartphone shipments in Western Europe increased 107.3% year-over-year, achieving a market share of 13.3%, and ranked top 3 in the region for the first time. In particular, we retained the top spot in Spain in smartphone shipments for the 3rd consecutive quarter with a 33.9% market share. We also increased our smartphone shipments by over 100% year-over-year in France, Italy and Germany. Additionally, we accounted for 26.9% of the smartphone shipments in Central and Eastern Europe in the third quarter of 2020, attaining the 2nd position in the region. In particular, we ranked 1st in Poland and Ukraine and 2nd in Russia in terms of smartphone shipments.

Moreover, we realized rapid growth in various other markets around the world. According to Canalys, in Latin America, our smartphone shipments jumped 471.4% year-over-year, attaining the 4th position with a 9.0% market share; in the Middle East, our smartphone shipments advanced by 156.7% year-over-year, ranking us 3rd with a 17.4% market share; in Africa, our smartphone shipments surged 197.5% year-over-year, and achieved the 3rd position with a market share of 10.7%.

Furthermore, in the third quarter of 2020, we maintained our No.1 position in India, capturing a market share of 26.1% by smartphone shipments, according to Canalys.

We strengthened our existing channel networks and made significant progress in cellular carrier channels. As of September 30, 2020, we established partnerships with more than 50 carriers, covering over 100 sub-networks in 50 countries. In the first 9 months of 2020, our smartphone shipments via carrier channels grew by over 200% year-over-year. According to Canalys, our carrier channel market share in Western Europe increased from 2.3% in the third quarter of 2019 to 4.6% in the third quarter of 2020. With the growing penetration rate of e-commerce in overseas markets, our long-standing advantages in e-commerce channels also continued to expand. In the first 9 months of 2020, we shipped over 10 million smartphones to overseas markets excluding India via e-commerce channels.

6. Strategic updates

Smartphone x AIoT

Our commitment to the core strategy of “Smartphone×AIoT” continued to drive synergies between the two business segments in various aspects spanning interconnectivity, product design and marketing strategy, further strengthening the moats for our business. As of September 30, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 289.5 million units, representing a year-over-year increase of 35.8%. The number of users who have five or more devices connected to Xiaomi’s AIoT platform (excluding smartphones and laptops) reached 5.6 million, representing a year-over-year increase of 59.0%. In September 2020, our AI Assistant (“小愛同學”) had 78.4 million MAU, an increase of 35.5% year-over-year. At the same time, the MAU of our *Mi Home App* reached 43.1 million, representing a year-over-year increase of 34.2%.

We continuously work to improve our AIoT platform, enhance the interconnectivity across our products, and optimize user experience. In the third quarter of 2020, we introduced *Redmi Router AX6* with WiFi 6 technology, featuring “Xiaomi Express Connect”, that provides an array of functions and enables superior IoT connectivity, including automatic device discovery, one-click network configuration, and automatic password sync across all supporting devices. In addition, we introduced the revolutionary ultra-wideband (UWB) technology. With this technology, your smartphone will be able to perceive signals from your smart devices in its surroundings and control the smart devices by simply pointing towards them.

In addition, at the annual Mi Developer Conference (MIDC 2020) held in November 2020, we launched Xiaomi Vela, an IoT software platform that is built on the NuttX open-source embedded operating system. This platform aims to enhance the interconnectivity across everyday scenarios to build out a thriving IoT ecosystem. At this event, we also introduced our next-generation AI Assistant “XiaoAi AI Assistant 5.0”, offering full-scenario intelligent collaboration, conversational active intelligence, customized voice with emotions, multi-modal visual capabilities, and smart learning assistance.

Investment in Technology

Technology innovation builds a solid foundation for Xiaomi’s sustainable growth. With our dedication to advanced technology, we took strides across an array of research and development programs to further enhance user experience.

In August 2020, we unveiled the 3rd Generation Under-screen Camera Technology. The smartphones equipped with this new camera technology have front-facing camera under the screen, providing a perfect full-screen design and ensuring a superior selfie experience. In October 2020, we debuted our 80W Mi Wireless Charging Technology that enables full wireless charging of a 4,000 mAh battery in 19 minutes. This cutting edge technology again spearheads the wireless charging solutions in the industry. In November 2020, we introduced the Retractable Wide-aperture Lens Technology, which features a retractable optical structure allowing a larger aperture to increase the amount of light intake by 300%. This complements the new anti-shake technology that provides a more stable image display with a 20% increase in definition and clarity.

To date, Xiaomi has established a large engineering team consisting of over 10,000 talented engineers. In 2021, we will continue to advance our investment and recruit more engineers to strengthen our R&D capabilities. We look to further broaden Xiaomi’s technological frontier across key areas, including camera imaging, screen display, fast charging/wireless charging, audio, IoT platform and connectivity, AI and voice interaction, 5G/6G, Big Data and cloud-based services, digitalization and workflow management system, and smart manufacturing.

Smart Manufacturing

To further improve the efficiency along the supply chain, we strive to make technological breakthroughs in advanced manufacturing, devoting ourselves to becoming the next-generation manufacturing solutions for traditional manufacturers.

In August 2020, we introduced our smart factory in Beijing. Through our smart factory, Xiaomi has developed advanced manufacturing equipment, including automated high-end smartphone production lines, and successfully mass produced *Mi 10 Ultra Transparent Edition*. Our smart factory serves to provide three key functions, namely (1) a smart factory with an annual production capacity of one million high-end smartphones; (2) a mega laboratory that engages in the research and development of new materials and cutting-edge technologies; and (3) an experimental base for the next-generation manufacturing equipment and automated production lines. The smart factory enables us to enhance control over the full production cycle across research and development, technology implementation, and manufacturing processes, fortifying our technological leadership.

Investments

As of September 30, 2020, we had invested in more than 300 companies with an aggregate book value of RMB39.5 billion, an increase of 37.5% year-over-year. As of September 30, 2020, the total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on September 30, (ii) book value of our stakes in unlisted investee companies accounted for using the equity method and (iii) book value of long-term investments measured at fair value through profit or loss) reached RMB50.6 billion. In the third quarter of 2020, we generated net gains on disposal of investments (after tax) of RMB713.5 million.

In October 2020, Ninebot Limited (SH:689009), one of our investee companies, successfully listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange, a further testament to the success of our ecosystem strategy. We will continue to leverage our resources and advantages to empower our ecosystem companies and transform more manufacturing industries globally.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2020 Compared to Third Quarter of 2019

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

	Unaudited	
	Three months ended	
	September 30,	September 30,
	2020	2019
	(RMB in millions)	
Revenue	72,162.8	53,661.0
Cost of sales	(61,997.1)	(45,424.6)
Gross profit	10,165.7	8,236.4
Selling and marketing expenses	(3,600.6)	(2,537.0)
Administrative expenses	(852.7)	(843.8)
Research and development expenses	(2,321.3)	(2,033.1)
Fair value changes on investments measured at fair value through profit or loss	3,417.9	32.5
Share of losses of investments accounted for using the equity method	(10.7)	(240.6)
Other income	139.3	448.4
Other (losses)/gains, net	(241.0)	49.9
Operating profit	6,696.6	3,112.7
Finance (expenses)/income, net	(1,245.9)	182.1
Profit before income tax	5,450.7	3,294.8
Income tax expenses	(586.3)	(775.4)
Profit for the period	4,864.4	2,519.4
Non-IFRS measure: Adjusted Net Profit	4,128.3	3,472.1

Revenue

Revenue increased on a year-over-year basis by 34.5% from RMB53.7 billion in the third quarter of 2019 to RMB72.2 billion in the third quarter of 2020. The following table sets forth our revenue by line of business in the third quarter of 2020 and the third quarter of 2019.

	Unaudited			
	Three months ended			
	September 30, 2020		September 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	47,604.1	66.0%	32,268.4	60.1%
IoT and lifestyle products	18,119.0	25.1%	15,606.3	29.1%
Internet services	5,771.9	8.0%	5,309.0	9.9%
Others	667.8	0.9%	477.3	0.9%
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<u>72,162.8</u>	<u>100.0%</u>	<u>53,661.0</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 47.5% from RMB32.3 billion in the third quarter of 2019 to RMB47.6 billion in the third quarter of 2020. Our smartphone shipments increased 45.3% from 32.1 million in the third quarter of 2019 to 46.6 million in the third quarter of 2020, mainly driven by the strong growth momentum in mainland China and overseas markets. The ASP of our smartphones was RMB1,022.3 per unit in the third quarter of 2020, compared with RMB1,006.5 per unit in the third 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 third quarter of 2020. The ASP in mainland China increased by 14.7% year-over-year, while the ASP in overseas markets decreased slightly by 1.5% due to our product launch schedule, with our entry-level smartphone *Redmi 9* series receiving widespread popularity.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 16.1% from RMB15.6 billion in the third quarter of 2019 to RMB18.1 billion in the third quarter of 2020, primarily due to the growth in demand for certain IoT products, such as robot vacuum cleaners, smart TVs and electric scooters. Revenue from smart TVs and laptops increased by 2.6% from RMB5.8 billion in the third quarter of 2019 to RMB5.9 billion in the third quarter of 2020.

Internet services

Revenue from our internet services segment increased by 8.7% from RMB5.3 billion in the third quarter of 2019 to RMB5.8 billion in the third quarter of 2020, driven by the growth in our advertising and other value-added service businesses. Our MIUI MAU increased by 26.3% from 291.6 million in September 2019 to 368.2 million in September 2020.

Others

Other revenue increased by 39.9% from RMB477.3 million in the third quarter of 2019 to RMB667.8 million in the third quarter of 2020, primarily due to the increase in revenue from the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 36.5% from RMB45.4 billion in the third quarter of 2019 to RMB62.0 billion in the third quarter of 2020. The following table sets forth our cost of sales by line of business in the third quarter of 2020 and the third quarter of 2019:

	Unaudited			
	Three months ended			
	September 30, 2020		September 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	43,615.1	60.4%	29,375.2	54.7%
IoT and lifestyle products	15,538.6	21.5%	13,608.0	25.4%
Internet services	2,283.3	3.2%	1,967.3	3.7%
Others	560.1	0.8%	474.1	0.9%
Total cost of sales	<u>61,997.1</u>	<u>85.9%</u>	<u>45,424.6</u>	<u>84.7%</u>

Smartphones

Cost of sales related to our smartphones segment increased by 48.5% from RMB29.4 billion in the third quarter of 2019 to RMB43.6 billion in the third quarter of 2020, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 14.2% from RMB13.6 billion in the third quarter of 2019 to RMB15.5 billion in the third 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 16.1% from RMB2.0 billion in the third quarter of 2019 to RMB2.3 billion in the third quarter of 2020, primarily due to the increased cost of our advertising and other value-added service businesses.

Others

Cost of sales related to our others segment increased by 18.1% from RMB474.1 million in the third quarter of 2019 to RMB560.1 million in the third quarter of 2020, primarily due to the increase in cost from the installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 23.4% from RMB8.2 billion in the third quarter of 2019 to RMB10.2 billion in the third quarter of 2020.

The gross profit margin of our smartphones segment decreased from 9.0% in the third quarter of 2019 to 8.4% in the third quarter of 2020, mainly due to enhanced promotional efforts. The gross profit margin of our IoT and lifestyle products segment increased from 12.8% in the third quarter of 2019 to 14.2% in the third quarter of 2020, mainly due to the strong growth in our IoT products with higher gross profit margin and the improvement in gross profit margin of smart TVs. The gross profit margin of our internet services segment decreased from 62.9% in the third quarter of 2019 to 60.4% in the third quarter of 2020, mainly due to the decline of gross profit margin of our fintech and gaming businesses.

As a result of the foregoing, together with the stronger growth of our smartphone business, our gross profit margin decreased from 15.3% in the third quarter of 2019 to 14.1% in the third quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 41.9% from RMB2.5 billion in the third quarter of 2019 to RMB3.6 billion in the third quarter of 2020, primarily due to the increase in promotion and advertising expenses, as well as packaging and transportation expenses. Promotion and advertising expenses increased by 52.4% from RMB849.9 million in the third quarter of 2019 to RMB1,295.2 million in the third quarter of 2020, primarily due to our marketing efforts for our premium smartphone models to increase brand awareness in overseas markets. Packaging and transportation expenses increased by 55.9% from RMB626.4 million in the third quarter of 2019 to RMB976.8 million in the third quarter of 2020, primarily due to the expansion of our overseas business.

Administrative Expenses

Our administrative expenses increased by 1.1% from RMB843.8 million in the third quarter of 2019 to RMB852.7 million in the third quarter of 2020.

Research and Development Expenses

Our research and development expenses increased by 14.2% from RMB2.0 billion in the third quarter of 2019 to RMB2.3 billion in the third quarter of 2020, primarily due to 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 increased from a gain of RMB32.5 million in the third quarter of 2019 to a gain of RMB3,417.9 million in the third quarter of 2020, primarily due to the increase in fair value gains of equity and preferred share investments in the third quarter of 2020.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method decreased from net losses of RMB240.6 million in the third quarter of 2019 to net losses of RMB10.7 million in the third quarter of 2020, primarily due to the decrease in share of loss of iQIYI, Inc. (Nasdaq: IQ) (“iQIYI”) in the third quarter of 2020.

Other Income

Our other income decreased by 68.9% from RMB448.4 million in the third quarter of 2019 to RMB139.3 million in the third quarter of 2020, due to lower dividend income received from our investee companies.

Other (Losses)/Gains, Net

Our other net (losses)/gains changed from net gains of RMB49.9 million in the third quarter of 2019 to net losses of RMB241.0 million in the third quarter of 2020. This was mainly due to the recognition of foreign exchange losses for the third quarter of 2020, compared to foreign exchange gains for the third quarter of 2019.

Finance (Expenses)/Income, Net

Our net finance (expenses)/income changed from net income of RMB182.1 million in the third quarter of 2019 to net expenses of RMB1,245.9 million in the third quarter of 2020, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses decreased by 24.4% from RMB775.4 million in the third quarter of 2019 to RMB586.3 million in the third quarter of 2020, primarily due to the decrease of deferred tax expenses.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.5 billion and a profit of RMB4.9 billion in the third quarter of 2019 and the third quarter of 2020, respectively a year-over-year increase of 93.1%.

Third Quarter of 2020 Compared to Second Quarter of 2020

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

	Unaudited	
	Three months ended	
	September 30,	June 30,
	2020	2020
	(RMB in millions)	
Revenue	72,162.8	53,537.8
Cost of sales	(61,997.1)	(45,836.4)
Gross profit	10,165.7	7,701.4
Selling and marketing expenses	(3,600.6)	(3,223.7)
Administrative expenses	(852.7)	(836.4)
Research and development expenses	(2,321.3)	(1,958.3)
Fair value changes on investments measured at fair value through profit or loss	3,417.9	2,366.2
Share of (losses)/gains of investments accounted for using the equity method	(10.7)	892.6
Other income	139.3	183.1
Other (losses)/gains, net	(241.0)	288.1
Operating profit	6,696.6	5,413.0
Finance expenses, net	(1,245.9)	(545.2)
Profit before income tax	5,450.7	4,867.8
Income tax expenses	(586.3)	(374.3)
Profit for the period	4,864.4	4,493.5
Non-IFRS measure: Adjusted Net Profit	4,128.3	3,373.2

Revenue

Revenue increased by 34.8% to RMB72.2 billion in the third quarter of 2020 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the third quarter of 2020 and the second quarter of 2020.

	Unaudited			
	September 30, 2020		June 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	47,604.1	66.0%	31,627.5	59.1%
IoT and lifestyle products	18,119.0	25.1%	15,252.9	28.5%
Internet services	5,771.9	8.0%	5,907.6	11.0%
Others	667.8	0.9%	749.8	1.4%
Total revenue	<u>72,162.8</u>	<u>100.0%</u>	<u>53,537.8</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 50.5% from RMB31.6 billion in the second quarter of 2020 to RMB47.6 billion in the third quarter of 2020. We sold approximately 46.6 million smartphone units in the third quarter of 2020, an increase of 64.4% compared to approximately 28.3 million units sold in the second quarter of 2020 as our business recovered from the impact of the pandemic. The ASP of our smartphones was RMB1,022.3 per unit in the third quarter of 2020, compared with RMB1,116.3 per unit in the second quarter of 2020. The ASP in mainland China increased quarter-over-quarter, while the ASP in overseas markets decreased due to our product launch schedule, with our entry-level smartphone *Redmi 9* series receiving widespread popularity.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 18.8% from RMB15.3 billion in the second quarter of 2020 to RMB18.1 billion in the third quarter of 2020, primarily due to the growth in demand for certain IoT products, such as wearable bands, smart TVs and electric scooters. Revenue from smart TVs and laptops, increased by 23.5% from RMB4.8 billion in the second quarter of 2020 to RMB5.9 billion in the third quarter of 2020.

Internet services

Revenue from our internet services segment decreased by 2.3% from RMB5.9 billion in the second quarter of 2020 to RMB5.8 billion in the third quarter of 2020, primarily due to the decline in revenue from our gaming and fintech businesses.

Others

Other revenue decreased by 10.9% from RMB749.8 million in the second quarter of 2020 to RMB667.8 million in the third quarter of 2020, primarily due to the decrease in revenue from the sales of materials.

Cost of Sales

Our cost of sales increased by 35.3% from RMB45.8 billion in the second quarter of 2020 to RMB62.0 billion in the third quarter of 2020. The following table sets forth our cost of sales by line of business in the third quarter of 2020 and the second quarter of 2020:

	Unaudited			
	September 30, 2020		June 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	43,615.1	60.4%	29,336.6	54.8%
IoT and lifestyle products	15,538.6	21.5%	13,515.2	25.2%
Internet services	2,283.3	3.2%	2,347.5	4.4%
Others	560.1	0.8%	637.1	1.2%
Total cost of sales	<u>61,997.1</u>	<u>85.9%</u>	<u>45,836.4</u>	<u>85.6%</u>

Smartphones

Cost of sales related to our smartphones segment increased by 48.7% from RMB29.3 billion in the second quarter of 2020 to RMB43.6 billion in the third 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 15.0% from RMB13.5 billion in the second quarter of 2020 to RMB15.5 billion in the third quarter of 2020, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 2.7% from RMB2,347.5 million in the second quarter of 2020 to RMB2,283.3 million in the third quarter of 2020, primarily due to the decreased cost of our fintech business.

Others

Cost of sales related to our others segment decreased by 12.1% from RMB637.1 million in the second quarter of 2020 to RMB560.1 million in the third quarter of 2020, primarily due to the decrease in cost from sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 32.0% from RMB7.7 billion in the second quarter of 2020 to RMB10.2 billion in the third quarter of 2020.

The gross profit margin of our smartphones segment increased from 7.2% in the second quarter of 2020 to 8.4% in the third quarter of 2020, mainly due to the stronger growth of our overseas smartphone business which has a higher gross profit margin. The gross profit margin of our IoT and lifestyle products segment increased from 11.4% in the second quarter of 2020 to 14.2% in the third quarter of 2020, mainly driven by the higher gross profit margin of our smart TV business. The gross profit margin of our internet services segment increased from 60.3% in the second quarter of 2020 to 60.4% in the third quarter of 2020.

As a result of the foregoing, together with the stronger growth of our smartphone business, our gross profit margin decreased from 14.4% in the second quarter of 2020 to 14.1% in the third quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 11.7% from RMB3.2 billion in the second quarter of 2020 to RMB3.6 billion in the third quarter of 2020, primarily due to the increase in promotion and advertising expenses, as well as packaging and transportation expenses. Promotion and advertising expenses increased by 21.2% from RMB1,068.6 million in the second quarter of 2020 to RMB1,295.2 million in the third quarter of 2020, primarily due to our marketing efforts for our premium smartphone models to increase brand awareness in overseas markets. The packaging and transportation expenses increased by 12.1% from RMB871.4 million in the second quarter of 2020 to 976.8 million in the third quarter of 2020, primarily due to the expansion of our overseas business.

Administrative Expenses

Our administrative expenses increased by 1.9% from RMB836.4 million in the second quarter of 2020 to RMB852.7 million in the third quarter of 2020.

Research and Development Expenses

Our research and development expenses increased by 18.5% from RMB2.0 billion in the second quarter of 2020 to RMB2.3 billion in the third quarter of 2020, primarily due to 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 increased by 44.4% from a gain of RMB2,366.2 million in the second quarter of 2020 to a gain of RMB3,417.9 million in the third quarter of 2020, primarily due to the increase in fair value gains of equity and preferred share investments in the third quarter of 2020.

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

Our share of (losses)/gains of investments accounted for using the equity method changed from net gains of RMB892.6 million in the second quarter of 2020 to net losses of RMB10.7 million in the third quarter of 2020, primarily due to the dilution gain from the initial public offering of Kingsoft Cloud Holdings Limited (Nasdaq: KC) in the second quarter of 2020.

Other Income

Our other income decreased by 23.9% from RMB183.1 million in the second quarter of 2020 to RMB139.3 million in the third quarter of 2020, primarily due to the decrease of additional deduction of input value-added tax.

Other (Losses)/Gains, Net

Our other net losses were RMB241.0 million in the third quarter of 2020, compared with net gains of RMB288.1 million in the second quarter of 2020. This is mainly due to the gains on disposal from an investee company in the second quarter of 2020 and the recognition of foreign exchange losses for the third quarter of 2020, compared to foreign exchange gains for the second quarter of 2020.

Finance Expenses, Net

Our net finance expenses increased from net expenses of RMB545.2 million in the second quarter of 2020 to net expenses of RMB1,245.9 million in the third quarter of 2020, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased from RMB374.3 million in the second quarter of 2020 to RMB586.3 million in the third quarter of 2020, primarily due to the increase of operating profit in the third quarter of 2020.

Profit for the Period

As a result of the foregoing, we had a profit of RMB4.5 billion and a profit of RMB4.9 billion in the second and third quarter of 2020, respectively, a quarter-over-quarter increase of 8.3%.

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 as an additional financial measure. We define Adjusted Net Profit (“**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 of non-IFS adjustments.

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

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

In the third quarter of 2020, the net fair value changes on investments of RMB2,557.5 million in the non-IFRS adjustments mainly include the pre-tax fair value gains on investments measured at fair value through profit or loss of RMB3,253.1 million offset by the pre-tax net realized gains on disposal of investments of RMB715.4 million (RMB713.5 million post-tax).

	Unaudited Three Months Ended September 30, 2020 Adjustments						Non-IFRS
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾ (RMB in thousand, unless specified)	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	
Profit for the period	4,864,348	579,192	(2,557,510)	79	1,352,516	(110,362)	4,128,263
Net margin	6.7%						5.7%

	Unaudited Three Months Ended June 30, 2020 Adjustments						Non-IFRS
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾ (RMB in thousand, unless specified)	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	
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 September 30, 2019 Adjustments						Non-IFRS
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾ (RMB in thousand, unless specified)	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	
Profit for the period	2,519,429	586,275	450,748	79	6,708	(91,133)	3,472,106
Net margin	4.7%						6.5%

Unaudited
Nine Months Ended September 30, 2020

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			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⁾		
			(RMB in thousand, unless specified)				
Profit for the period	11,517,715	1,667,695	(5,079,388)	237	2,027,893	(332,180)	9,801,972
Net margin	6.6%						5.6%

Unaudited
Nine Months Ended September 30, 2019

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			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⁾		
			(RMB in thousand, unless specified)				
Profit for the period	7,666,731	1,604,572	71,651	1,625	60,408	(217,097)	9,187,890
Net margin	5.1%						6.2%

Notes:

- (1) Includes fair value changes on equity investments and preferred shares investments deducting the cumulative fair value changes for investments (including the financial assets measured at fair value through profit or loss (“FAFVPL”) and the investments using the equity method transferred from FAFVPL) disposed in the current period, net gains/(losses) on deemed disposals of investee companies, the impairment provision for investments, re-measurement of loss of significant influence in an associate and, re-measurement of investments transferring from FAFVPL to investments using the equity method.
- (2) Represents amortization of intangible assets resulting from acquisitions.
- (3) Represent the change of value of the financial liabilities payable to the fund investors, as a result of the change of fair value of the fund.
- (4) Income tax effects of Non-IFRS adjustments.

Liquidity and Financial Resources

During the nine months ended September 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 disclosed in the interim report of the Company dated September 29, 2020, we funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB30.3 billion and RMB22.8 billion as of September 30, 2020 and June 30, 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, short-term investments measured at amortized cost and long-term bank deposits. As of September 30, 2020, the aggregate amount of cash resources of the Group was RMB75.5 billion.

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	September 30,	June 30,
	2020	2020
	(in thousands of RMB)	
Net cash generated from operating activities ⁽¹⁾	12,277,245	4,279,092
Net cash used in investing activities	(2,961,303)	(12,422,151)
Net cash (used in)/generated from financing activities ⁽¹⁾	(953,476)	6,024,703
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	8,362,466	(2,118,356)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	22,843,316	25,073,687
Effects of exchange rate changes on cash and cash equivalents	(948,070)	(112,015)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	30,257,712	22,843,316
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (1) Excluding (1) the decrease in loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the decrease in trade payables related to the finance factoring business; (3) the increase in restricted cash resulting from the fintech business, and (4) the increase in deposits from customers resulting from the Airstar Bank, the net cash generated from operating activities was RMB9.5 billion in the third quarter of 2020 and the net cash generated from operating activities was RMB6.7 billion in the second quarter of 2020, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB1.0 billion in the third quarter of 2020 and the net cash generated from financing activities was RMB3.4 billion in the second quarter of 2020, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group’s auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Generated From Operating Activities

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

In the third quarter of 2020, net cash generated from our operating activities amounted to RMB12.3 billion, representing cash generated from operations of RMB12.4 billion minus income tax paid of RMB0.1 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB5.5 billion, adjusted by a decrease in inventories of RMB4.0 billion, and an increase in trade payables of RMB2.8 billion.

Net Cash Used In Investing Activities

In the third quarter of 2020, our net cash used in investing activities was RMB3.0 billion, which was primarily attributed to the net increase of short-term investments measured at fair value through profit or loss of RMB3.9 billion and the net increase of long-term bank deposits of RMB3.5 billion, partially offset by the net decrease of short-term bank deposits of RMB5.2 billion.

Net Cash Used In Financing Activities

For the third quarter of 2020, our net cash used in financing activities was RMB1.0 billion, which was primarily attributed to the net decrease of borrowings of RMB4.1 billion, partially offset by proceeds from fund investors of RMB3.4 billion.

Borrowings

As of June 30, 2020 and September 30, 2020, we had total borrowings of RMB23.4 billion and RMB18.6 billion, respectively.

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

	Unaudited	
	Three months ended	
	September 30, 2020	June 30, 2020
	(RMB in millions, unless specified)	
Capital expenditures	386,166	486,986
Placement of long-term investments ⁽¹⁾	<u>1,678,431</u>	<u>2,547,427</u>
Total	<u><u>2,064,597</u></u>	<u><u>3,034,413</u></u>

Note:

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

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

Off-Balance Sheet Commitments and Arrangements

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

Future Plans for Material Investments and Capital Assets

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

Employee and Remuneration Policy

As of September 30, 2020, we had 20,881 full-time employees, 19,319 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key global markets. As of September 30, 2020, our research and development personnel, totaling 10,480 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 September 30, 2020, 15,846 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the third quarter of 2020 were RMB2.5 billion, representing an increase of 13.8% from the second quarter of 2020 of RMB2.2 billion.

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 various currencies exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arises from recognized assets and liabilities in our subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners.

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

Pledge of Assets

As of September 30, 2020, we pledged a restricted deposit of RMB3,257.4 million, compared with RMB1,443.9 million as of June 30, 2020.

Contingent Liabilities

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

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months and nine months ended September 30, 2020

(Expressed in Renminbi (“RMB”))

	Note	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,	
		2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	2	72,162,777	53,661,006	175,402,749	149,368,958
Cost of sales	2, 3	<u>(61,997,121)</u>	<u>(45,424,572)</u>	<u>(149,977,190)</u>	<u>(128,658,228)</u>
Gross profit		10,165,656	8,236,434	25,425,559	20,710,730
Selling and marketing expenses	3	(3,600,582)	(2,537,037)	(9,449,131)	(6,677,015)
Administrative expenses	3	(852,715)	(843,760)	(2,470,674)	(2,199,295)
Research and development expenses	3	(2,321,264)	(2,033,115)	(6,150,520)	(5,239,839)
Fair value changes on investments measured at fair value through profit or loss	4	3,417,924	32,533	6,131,958	1,994,595
Share of (losses)/gains of investments accounted for using the equity method		(10,696)	(240,560)	1,012,687	(398,032)
Other income		139,291	448,379	396,069	914,979
Other (losses)/gains, net		(240,995)	49,906	(463,114)	(43,060)
Operating profit		6,696,619	3,112,780	14,432,834	9,063,063
Finance (expenses)/income, net		(1,245,938)	182,068	(1,660,268)	383,243
Profit before income tax		5,450,681	3,294,848	12,772,566	9,446,306
Income tax expenses		(586,333)	(775,419)	(1,254,851)	(1,779,575)
Profit for the period		4,864,348	2,519,429	11,517,715	7,666,731
Attributable to:					
— Owners of the Company		4,880,596	2,525,063	11,542,239	7,602,978
— Non-controlling interests		(16,248)	(5,634)	(24,524)	63,753
		4,864,348	2,519,429	11,517,715	7,666,731
Earnings per share (expressed in RMB per share):					
Basic		0.203	0.106	0.483	0.320
Diluted		0.198	0.102	0.472	0.308

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and nine months ended September 30, 2020

(Expressed in RMB)

Note	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Profit for the period	4,864,348	2,519,429	11,517,715	7,666,731
Other comprehensive (loss)/income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Share of other comprehensive (loss)/income of investments accounted for using the equity method	(44,809)	59,914	(27,826)	45,384
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	—	—	(4,773)	—
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	(5,925)	—	(3,824)	—
Currency translation differences	(44,066)	(18,935)	(7,943)	14,701
<i>Item that will not be reclassified subsequently to profit or loss</i>				
Currency translation differences	(1,223,904)	869,667	(784,348)	951,276
Other comprehensive (loss)/income for the period, net of tax	(1,318,704)	910,646	(828,714)	1,011,361
Total comprehensive income for the period	3,545,644	3,430,075	10,689,001	8,678,092
Attributable to:				
— Owners of the Company	3,561,639	3,425,235	10,707,497	8,601,235
— Non-controlling interests	(15,995)	4,840	(18,496)	76,857
	3,545,644	3,430,075	10,689,001	8,678,092

CONDENSED CONSOLIDATED BALANCE SHEET

As of September 30, 2020

(Expressed in RMB)

		Unaudited As of September 30, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Assets			
Non-current assets			
Property and equipment		6,990,443	6,992,331
Intangible assets		1,355,619	1,672,002
Long-term bank deposits		6,395,493	590,157
Investments accounted for using the equity method		12,415,403	9,300,507
Long-term investments measured at fair value through profit or loss	4	27,039,639	20,679,363
Deferred income tax assets		1,714,694	1,283,415
Other non-current assets		5,767,076	5,572,346
		<u>61,678,367</u>	<u>46,090,121</u>
Current assets			
Inventories	6	34,996,234	32,585,438
Trade receivables	5	13,482,432	6,948,567
Loan receivables		11,139,407	12,723,503
Prepayments and other receivables		20,336,208	19,837,018
Short-term investments measured at amortized cost	4	341,527	—
Short-term investments measured at fair value through other comprehensive income	4	862,149	—
Short-term investments measured at fair value through profit or loss	4	21,097,732	16,463,390
Short-term bank deposits		14,156,263	21,523,043
Restricted cash		3,257,432	1,538,266
Cash and cash equivalents		30,257,712	25,919,861
		<u>149,927,096</u>	<u>137,539,086</u>
Total assets		<u><u>211,605,463</u></u>	<u><u>183,629,207</u></u>

		Unaudited	Audited
		As of	As of
	Note	September 30,	December 31,
		2020	2019
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		392	388
Reserves		<u>94,228,146</u>	<u>81,330,186</u>
		<u>94,228,538</u>	<u>81,330,574</u>
Non-controlling interests		<u>339,840</u>	<u>327,102</u>
Total equity		<u><u>94,568,378</u></u>	<u><u>81,657,676</u></u>
Liabilities			
Non-current liabilities			
Borrowings	7	7,183,648	4,786,856
Deferred income tax liabilities		419,568	579,902
Warranty provision		750,523	667,857
Other non-current liabilities		<u>9,147,534</u>	<u>3,756,211</u>
		<u>17,501,273</u>	<u>9,790,826</u>
Current liabilities			
Trade payables	8	63,256,578	59,527,940
Other payables and accruals		11,253,648	9,101,343
Advance from customers		10,085,567	8,237,119
Borrowings	7	11,385,210	12,836,555
Income tax liabilities		835,543	479,350
Warranty provision		<u>2,719,266</u>	<u>1,998,398</u>
		<u>99,535,812</u>	<u>92,180,705</u>
Total liabilities		<u><u>117,037,085</u></u>	<u><u>101,971,531</u></u>
Total equity and liabilities		<u><u>211,605,463</u></u>	<u><u>183,629,207</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2020

(Expressed in RMB)

	Unaudited	
	Nine months ended	
	September 30,	
	2020	2019
	RMB'000	RMB'000
Net cash generated from operating activities	8,350,998	13,908,001
Net cash used in investing activities	(7,173,063)	(11,768,862)
Net cash generated from financing activities	3,839,898	2,576,968
Net increase in cash and cash equivalents	5,017,833	4,716,107
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	(679,982)	592,910
Cash and cash equivalents at the end of the period	30,257,712	35,539,164

1 Basis of preparation

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of September 30, 2020, the condensed consolidated income statements and the condensed consolidated statements of comprehensive income for the three-month and nine-month periods then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**Interim Financial Information**”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting”, issued by the International Accounting Standards Board (“**IASB**”).

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2019 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2019 annual report of the Company dated March 31, 2020 (the “**2019 Financial Statements**”).

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2019, as described in the 2019 Financial Statements, except for the adoption of certain new and amended standards which has had no significant impact on the results and the financial position of the Group.

2 Segment information

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

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

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

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

	Three months ended September 30,				Nine months ended September 30,			
	2020		2019		2020		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Mainland China	32,393,887	44.9	27,519,935	51.3	86,773,126	49.5	84,580,522	56.6
Rest of the world (Note(a))	39,768,890	55.1	26,141,071	48.7	88,629,623	50.5	64,788,436	43.4
	<u>72,162,777</u>		<u>53,661,006</u>		<u>175,402,749</u>		<u>149,368,958</u>	

Note:

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

3 Expenses by nature

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold	55,583,881	40,447,770	132,383,272	114,274,999
Provision for impairment of inventories	1,021,402	640,751	2,528,191	3,112,135
Royalty fees	1,739,479	1,391,398	4,798,279	3,633,643
Employee benefit expenses	2,470,659	2,121,071	6,852,363	5,939,590
Depreciation of property and equipment, right-of-use assets and investment properties	270,577	239,416	751,129	668,915
Amortization of intangible assets	123,135	116,414	367,619	364,201
Promotion and advertising expenses	1,295,182	849,946	3,215,560	1,827,730
Content fees to game developers and video providers	571,052	484,044	1,815,080	1,226,764
Credit loss allowance for loan receivables	415,978	414,858	1,599,295	868,086
Consultancy and professional service fees	224,209	209,054	643,029	487,501
Cloud service, bandwidth and server custody fees	549,610	372,472	1,467,712	1,318,501
Warranty expenses	1,063,454	752,792	2,385,742	2,080,224

4 Investments

	As of September 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	21,097,732	16,463,390
Short-term investments measured at fair value through other comprehensive income	862,149	—
Short-term investments measured at amortized cost	341,527	—
	<u>22,301,408</u>	<u>16,463,390</u>
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	10,086,063	7,272,454
— Preferred shares investments	16,953,576	13,406,909
	<u>27,039,639</u>	<u>20,679,363</u>

Amounts recognized in profit or loss

	Three months ended September 30, 2020 RMB'000 (Unaudited)		2019 RMB'000 (Unaudited)		Nine months ended September 30, 2020 RMB'000 (Unaudited)		2019 RMB'000 (Unaudited)	
Fair value changes on equity investments	2,978,297		208,240		5,142,793		1,738,986	
Fair value changes on preferred shares investments	274,789		(146,237)		549,396		231,785	
Fair value changes on short-term investments measured at fair value through profit or loss	164,838		(29,470)		439,769		23,824	
	<u>3,417,924</u>		<u>32,533</u>		<u>6,131,958</u>		<u>1,994,595</u>	

5 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 September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Trade receivables		
Up to 3 months	12,611,451	6,076,873
3 to 6 months	631,348	550,929
6 months to 1 year	339,355	308,197
1 to 2 years	56,135	98,643
Over 2 years	68,422	29,706
	<u>13,706,711</u>	<u>7,064,348</u>
Less: credit loss allowance	<u>(224,279)</u>	<u>(115,781)</u>
	<u><u>13,482,432</u></u>	<u><u>6,948,567</u></u>

6 Inventories

	As of September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Raw materials	12,841,353	9,347,930
Finished goods	14,626,519	18,030,136
Work in progress	3,186,201	2,422,504
Spare parts	1,995,659	1,733,042
Others	3,482,828	1,925,785
	<u>36,132,560</u>	<u>33,459,397</u>
Less: provision for impairment	<u>(1,136,326)</u>	<u>(873,959)</u>
	<u><u>34,996,234</u></u>	<u><u>32,585,438</u></u>

7 Borrowings

	As of September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities	930,000	2,305,000
Fund raised through trusts	262,500	450,000
Secured borrowings	1,772,757	1,825,856
Unsecured borrowings	4,218,391	206,000
	<u>7,183,648</u>	<u>4,786,856</u>
Included in current liabilities		
Asset-backed securities	4,338,851	2,647,641
Fund raised through trusts	338,070	420,000
Secured borrowings	1,607,280	1,796,701
Unsecured borrowings	5,101,009	7,972,213
	<u>11,385,210</u>	<u>12,836,555</u>

8 Trade payables

Trade payables primarily include payables for inventories. As of September 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 September 30, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Up to 3 months	60,395,802	57,942,872
3 to 6 months	2,141,113	1,136,595
6 months to 1 year	575,759	342,864
1 to 2 years	48,206	55,709
Over 2 years	95,698	49,900
	<u>63,256,578</u>	<u>59,527,940</u>

OTHER INFORMATION

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

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

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

The number of Class B Shares in issue was reduced by 48,410,000 shares as a result of the cancellation of the Shares Repurchased on May 25, 2020. 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.

A total of 13,084,284 Class A Shares were converted into Class B Shares on a one-to-one ratio on May 25, 2020, of which Lei Jun, through Smart Mobile Holdings Limited, converted 8,514,521 Class A Shares and Lin Bin converted 4,569,763 Class A Shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the nine months ended September 30, 2020 and up to the date of this announcement.

Compliance with the Corporate Governance Code

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

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

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

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the unaudited interim results of the Group for the three and nine months ended September 30, 2020. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

Material Litigation

As of September 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.

Use of Net Proceeds from the Global Offering

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

Events after September 30, 2020

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

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, November 24, 2020

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