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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 MONTHS ENDED MARCH 31, 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 months ended March 31, 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				
	March 31, 2020	March 31, 2019	Year- over-year change	December 31, 2019	Quarter- over-quarter change
Revenue	49,702.2	43,756.8	13.6%	56,469.7	-12.0%
Gross profit	7,558.5	5,215.6	44.9%	7,843.3	-3.6%
Operating profit	2,323.1	3,614.1	-35.7%	2,697.1	-13.9%
Profit before income tax	2,454.0	3,717.1	-34.0%	2,716.3	-9.7%
Profit for the period	2,159.8	3,191.7	-32.3%	2,436.2	-11.3%
Non-IFRS measure:					
Adjusted Net Profit	2,300.5	2,080.7	10.6%	2,344.4	-1.9%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

In the first quarter of 2020, our business achieved solid growth across all business segments. Total revenue for the period amounted to RMB49.7 billion, representing an increase of 13.6% year-over-year. Adjusted net profit for the period was RMB2.3 billion, an increase of 10.6% year-over-year. The solid business performance we achieved despite the COVID-19 outbreak reflects the strength of our business model to weather difficult market environments.

In the first quarter of 2020, we continued to execute our “Smartphone + AIoT” dual-engine strategy, which yielded outstanding results worldwide. We successfully navigated the market downturn and were able to achieve the highest year-over-year growth in shipments among the top five smartphone companies worldwide, according to Canalys. Benefiting from the continued expansion in our global smartphone market share, the monthly active users (“MAU”) of MIUI increased to 330.7 million, an increase of 26.7% year-over-year.

In the first quarter of 2020, the number of devices connected to our consumer IoT platform continued to increase. As of March 31, 2020, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached 252.0 million, an increase of 42.6% year-over-year. Our AI assistant “小愛同學” had 70.5 million MAU in March 2020, an increase of 54.9% year-over-year.

Leveraging our diversified business streams, our internet services segment continued along its growth trajectory. Revenue from our internet services segment in the first quarter of 2020 increased by 38.6% year-over-year to RMB5.9 billion, accounting for a record high of 11.9% of our total revenue.

In the first quarter of 2020, we continued to expand our overseas markets. Revenue from overseas markets in the first quarter of 2020 amounted to RMB24.8 billion, an increase of 47.8% year-over-year and, for the first time, accounted for half of our total revenue. According to Canalys, our smartphone shipments in Western Europe increased by 79.3% year-over-year and we attained the largest market share in Spain for the first time.

2. Smartphones

In the first quarter of 2020, revenue from our smartphones segment amounted to RMB30.3 billion, an increase of 12.3% year-over-year. We shipped 29.2 million units of smartphones in the first quarter of 2020, an increase of 4.7% year-over-year. According to Canalys, in the first quarter of 2020, we ranked 4th globally in terms of smartphone shipments, and our market share rose to 11.1%. Notably, we were one of only two of the top five smartphone companies worldwide to maintain year-over-year growth in shipments, according to Canalys.

In the first quarter of 2020, we continued to execute our dual-brand strategy, which delivered excellent results. In February 2020, we launched *Mi 10* and *Mi 10 Pro*, and both were well-received by the market for their outstanding performance. Shipments of *Mi 10* and *Mi 10 Pro* exceeded 1 million units two months after their launch, enabling the Xiaomi brand to further strengthen its position in the premium smartphone market. *Mi 10* and *Mi 10 Pro* were launched overseas in late March with prices starting at €799 and €999, respectively. Boosted by our premium smartphone models, the average selling price (“ASP”) of our smartphones increased by 7.2% year-over-year in the first quarter of 2020. The ASP of our smartphones in the mainland China and overseas markets increased by 18.7% and 13.7% year-over-year respectively.

We also expanded our 5G smartphone selection to appeal to a wider audience. In April 2020, we launched *Mi 10 Lite Zoom Edition* to target the younger consumer segments. With prices starting at RMB2,099, it features a 50x periscope telephoto lens camera and other advanced technologies. *Mi 10 Lite 5G* was launched in March 2020 in overseas markets, with prices starting at €349.

The Redmi brand continued to introduce highly competitive products at different price points. In March 2020, Redmi launched its flagship K series *Redmi K30 Pro* and *Redmi K30 Pro Zoom Edition*, sporting premium features including the Snapdragon 865 processor, LPDDR5, and UFS 3.1, while also featuring a pop-up camera, allowing our customers to enjoy a full flagship experience at a reasonable price. On the back of the highly popular *Redmi Note 8* series, the second best-selling smartphone model globally in the first quarter of 2020 according to Canalys, we launched *Redmi Note 9S* and *Redmi Note 9 Pro* in overseas markets, carrying on the ultimate price-performance value proposition of the Redmi brand.

In April 2020, we released MIUI 12, the latest version of our smartphone operating system. Equipped with our proprietary *Mi Light Cone Animation Framework*, MIUI 12 offers remarkable animation and a stunning visualized user interface. In addition, MIUI 12 has introduced a powerful privacy and data protection framework, which enables users to have full visibility of sensitive data retrieval, take control over app permissions, and mask their identity information to remain incognito. MIUI 12 is the world’s first mobile operating system to pass the TÜV Rheinland “Enhanced Privacy Protection for Android Systems” test. We believe that MIUI 12’s extraordinary user experience and enhanced privacy protection will enable us to uphold our unique competitive advantages and further differentiate ourselves among Android-based smartphones.

3. IoT and lifestyle products

In the first quarter of 2020, revenue from our IoT and lifestyle products segment was RMB13.0 billion. Although the production, transportation and installation of certain product categories, such as large home appliances, were greatly affected by the pandemic, we still achieved a year-over-year increase of 7.8% in revenue, due to our diversified IoT product offerings and solid business foundation.

Our smart TV business continued to maintain its leading position in both the mainland China and overseas markets. In the first quarter of 2020, despite the overall decline in TV shipments globally due to the pandemic, our global shipments of smart TVs still increased by 3.0% year-over-year to 2.7 million units. According to All View Cloud (“AVC”), in the first quarter of 2020, our TV shipments in mainland China ranked 1st for five consecutive quarters and our global TV shipments ranked among the top five.

As a leader in the smart TV market, Xiaomi continued to explore the future of smart TVs. In March 2020, we launched *Redmi Smart TV Max 98*”, priced from RMB19,999, significantly lower than other ultra-large TVs, bringing high-end TVs to the mass market.

In the first quarter of 2020, we continued to expand our IoT product portfolio and promote the interconnectivity of our AIoT platform. In February 2020, we introduced *Mi AIoT Router AX3600*, a WiFi 6 enabled AIoT router, which greatly improves upstream and downstream network speeds, making us the first brand in China to support WiFi 6 technology from terminals to routers. In addition, we also launched *Mi 65W Fast Charger with GaN Tech*, *Redmi Smart Display 8*” and *Mi Bluetooth Speaker with Wireless Charging*, all of which enjoyed widespread popularity.

Many of our major IoT products maintained strong growth in the first quarter of 2020. The sales of our routers increased by 124.0% year-over-year in the first quarter of 2020 and according to AVC, ranked 2nd in mainland China in terms of online router shipments. Sales of our *Xiaomi TWS Earphones*, *Mi Band*, *Mi Electric Scooter* and *Mi Robot Vacuum Cleaner* increased by 619.6%, 56.0%, 40.7% and 40.0% year-over-year, respectively. According to Canalys, we ranked 1st in terms of wearable bands shipments and 3rd in terms of True Wireless Stereo (“TWS”) earbuds shipments globally in 2019. According to iResearch, we also ranked 1st in terms of electric scooter shipments globally in 2019.

4. Internet services

In the first quarter of 2020, revenue from our internet services segment amounted to RMB5.9 billion, representing an increase of 38.6% year-over-year, accounting for a record high of 11.9% of our total revenue.

User activity and time spent on our devices increased in the first quarter of 2020. In March 2020, the MAU of MIUI increased by 26.7% year-over-year to 330.7 million, while the mainland China MAU of MIUI reached 111.5 million.

In the first quarter of 2020, advertising revenue was RMB2.7 billion, an increase of 16.6% year-over-year. While the advertising budgets of certain vertical industries were reduced due to the pandemic, the impact was partially offset by our diversified monetization methods, including search, pre-installation and news feeds, our expanded advertiser base across a variety of industries, and the optimization of our recommendation algorithms. Meanwhile, overseas internet advertising revenue saw strong growth in the first quarter of 2020, enabling us to achieve a solid year-on-year increase in overall advertising revenue.

In the first quarter of 2020, online gaming revenue increased by 80.5% year-over-year to RMB1.5 billion, mainly due to the fast-growing online gaming market in mainland China and higher online gaming average revenue per user from our premium smartphone users.

In the first 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 71.5% year-over-year and accounted for 38.1% of our total internet services revenue.

In particular, our Youpin e-commerce platform continued to broaden its offerings and provide uninterrupted services to customers. The number of new users increased significantly in the first quarter of 2020, laying a strong foundation for further expansion.

In the first quarter of 2020, amid a volatile market environment, our fintech business strengthened its risk controls and optimized user quality to lay a strong foundation for sustainable long-term development. Our supply chain finance business provided financing to credit-worthy companies during the pandemic.

Video streaming and other subscription services provided on our TVs became a major entertainment choice for many consumers amid the pandemic. As users grew accustomed to paid subscription services on our platforms, our subscription revenue grew rapidly. In March 2020, MAU of our smart TVs and *Mi Box* reached 30.4 million, representing an increase of 46.8% year-over-year. As of March 31, 2020, the number of paid subscribers increased by 53.7% year-over-year to 4.3 million.

Building on the momentum of our overseas smartphone sales and enlarged user base, our overseas internet services have made remarkable progress. We continued deepening our relationships with advertising platforms, establishing direct relationships with advertisers and strengthening our internet services overseas. In the first quarter of 2020, the MAU of *Mi Browser* on Xiaomi smartphones in the aggregated overseas market ranked 1st among all browsers. These initiatives increased our average revenue per user in the overseas market.

5. Overseas markets

In the first quarter of 2020, our overseas revenue increased by 47.8% year-over-year to RMB24.8 billion, accounting for 50.0% of our total revenue. For the first time, our overseas revenue contributed to half of our total revenue.

We experienced remarkable growth in major overseas markets. According to Canalys, in the first quarter of 2020, our smartphone shipments grew by 58.3% year-over-year in the European market, accounting for a 14.3% market share and ranking among the top four. We also ranked among the top four in Italy, France and Germany according to Canalys. In Spain, we became the No. 1 smartphone company by shipments with a 28.0% market share, according to Canalys. In Latin America, according to Canalys, our market share ranked 5th following a 236.1% year-over-year increase in smartphone shipments, against a decline for the overall market. In addition, our smartphone shipments in the Middle East and Africa grew by 55.2% and 284.9% year-over-year respectively, according to Canalys.

In the first quarter of 2020, we continued to expand our leading advantage in India and captured a market share of approximately 31.2% by shipments, ranked 1st for the 11th consecutive quarter, according to “IDC Worldwide Quarterly Mobile Phone Tracker, 2020Q1”. Our solid leadership in India has also powered our growth in its adjacent markets. According to the same source, we ranked 1st in smartphone shipments in Nepal in the first quarter of 2020 with a market share of 30.9%, the equivalent of the market share of the 2nd and the 3rd ranked smartphone companies combined.

6. Impact of the COVID-19 outbreak

In China, Xiaomi was among the first internet companies to fight the pandemic in Hubei province. We donated and delivered critical medical supplies to more than 30 hospitals there. During the pandemic, our AIoT platform and internet services helped bridge the distance between our users and enriched their lives. Meanwhile, our voice assistant “小愛同學” collaborated with multiple platforms to support relevant queries and other functions, leveraging our technology to combat COVID-19.

In the face of the pandemic, we reiterate our belief that humanity is a community with a shared future. Besides combatting the pandemic in China, we have actively fought to help address the global emergency. In addition to cash donations, we have made donations of medical supplies in large quantities, including masks, protective suits and ventilators, to more than 30 countries around the world.

At the end of the first quarter of 2020, as the impact of the pandemic in mainland China began to ease, sales of our major products experienced solid recoveries. We proactively worked with our supply chain partners to help them ramp up production capacities. Our production in mainland China has largely resumed, and smartphone demand has rebounded quickly. Since March, our mainland China smartphone shipments have gradually returned to the pre-pandemic level, and our smart TV shipments have also largely recovered.

The different levels of lockdown measures adopted in overseas markets are expected to affect our performance in the second quarter of 2020. In India, strict lockdown measures were imposed in late March and our sales were significantly impacted during the lockdown period. Since the start of May, India has begun to lift the restrictions on production and sales activities in phases. In areas where sales have resumed, consumer demand has rebounded in a similar fashion to the mainland China market. In other overseas markets, lockdown measures are also gradually being lifted and sales have begun to recover. For example, as of the third week of May, the weekly number of smartphone activations in the European market had returned to over 90% of the average weekly level in January 2020. Our extensive global reach has allowed us to quickly strategize and deploy resources across different markets in response to the pandemic.

We believe that a crisis is the ultimate litmus test for a company’s business model and growth potential. During the pandemic, we acted promptly and properly, which demonstrated the flexibility, resiliency and competitiveness of our business model. As the impact of the pandemic subsides, we look forward to life returning to normal, and the continued implementation of our business strategy to drive further growth in our markets.

7. Strategic update

5G+AIoT

Our firm and focused 5G+AIoT strategy execution in the first quarter of 2020 yielded excellent results. In March 2020, our mainland China 5G smartphone market share by sales volume reached 14.1%. According to Canalys, our mainland China smartphone 5G penetration rate was 25.9%, surpassing the industry average, reflecting our leading position in the 5G smartphone market.

Xiaomi continued to hold the leading position in the global IoT market. According to iResearch, Xiaomi was the largest consumer IoT platform in the world in terms of the number of connected IoT devices (excluding smartphones and laptops) as of December 31, 2019. The number of connected IoT devices (excluding smartphones and laptops) further grew to 252.0 million units as of March 31, 2020, an increase of 42.6% year-over-year. Moreover, the number of users who have five or more devices connected to the Company's IoT platform (excluding smartphones and laptops) reached 4.6 million, an increase of 67.9% year-over-year. In March 2020, our AI assistant “小愛同學” had 70.5 million MAU, an increase of 54.9% year-over-year. In March 2020, our *Mi Home* app had 40.0 million MAU, an increase of 53.4% year-over-year.

Investments

As of March 31, 2020, the Company had invested in more than 300 companies with an aggregated book value of RMB32.3 billion, representing a year-over-year growth of 11.4%. Following the listing of Roborock on the Science and Technology Innovation Board of the Shanghai Stock Exchange in February 2020, Kingsoft Cloud Holdings Limited, another of our investee companies, successfully listed on the Nasdaq Stock Exchange in May 2020. In the first quarter of 2020, we generated net gains on disposal of investments (after tax) of RMB225.9 million. We believe our investments generate not only strategic value by strengthening business cooperation with the investee companies, but also recurring investment income for our company.

MANAGEMENT DISCUSSION AND ANALYSIS

First Quarter of 2020 Compared with First Quarter of 2019

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

	Unaudited	
	Three months ended	
	March 31,	March 31,
	2020	2019
	(RMB in millions)	
Revenue	49,702.2	43,756.8
Cost of sales	(42,143.7)	(38,541.2)
Gross profit	7,558.5	5,215.6
Selling and marketing expenses	(2,624.9)	(1,844.7)
Administrative expenses	(781.5)	(632.0)
Research and development expenses	(1,871.0)	(1,650.6)
Fair value changes on investments measured at fair value through profit or loss	347.8	2,632.7
Share of gains/(losses) of investments accounted for using the equity method	130.7	(145.4)
Other income	73.7	60.2
Other losses, net	(510.2)	(21.7)
Operating profit	2,323.1	3,614.1
Finance income, net	130.9	103.0
Profit before income tax	2,454.0	3,717.1
Income tax expenses	(294.2)	(525.4)
Profit for the period	2,159.8	3,191.7
Non-IFRS measure: Adjusted Net Profit	2,300.5	2,080.7

Revenue

Revenue increased by 13.6% to RMB49.7 billion in the first quarter of 2020 on a year-on-year basis. The following table sets forth our revenue by line of business in the first quarter of 2020 and the first quarter of 2019:

	Unaudited			
	Three months ended		March 31, 2019	
	March 31, 2020		March 31, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	30,324.7	61.0%	27,008.7	61.7%
IoT and lifestyle products	12,984.2	26.1%	12,043.0	27.5%
Internet services	5,900.7	11.9%	4,257.3	9.7%
Others	492.6	1.0%	447.8	1.1%
Total revenue	<u>49,702.2</u>	<u>100.0%</u>	<u>43,756.8</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 12.3% from RMB27.0 billion in the first quarter of 2019 to RMB30.3 billion in the first quarter of 2020. We sold 29.2 million smartphone units in the first quarter of 2020, compared to 27.9 million units in the first quarter of 2019. The ASP of our smartphones was RMB1,038.0 per unit in the first quarter of 2020, compared with RMB968.3 per unit in the first quarter of 2019. The increase in ASP was primarily due to the launch of 5G and other premium smartphone models in the first quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 7.8% from RMB12.0 billion in the first quarter of 2019 to RMB13.0 billion in the first quarter of 2020. The increase in revenue was primarily due to the strong growth in demand of certain IoT products, such as wearable bands and routers. Revenue from smart TVs and laptops decreased by 8.2% from RMB5.0 billion in the first quarter of 2019 to RMB4.6 billion in the first quarter of 2020, mainly due to the lower sales activity and production disruption caused by the pandemic.

Internet services

Revenue from our internet services segment increased by 38.6% from RMB4.3 billion in the first quarter of 2019 to RMB5.9 billion in the first quarter of 2020, as all of our major internet service businesses posted solid growth. Our MIUI MAU was 330.7 million in March 2020, an increase of 26.7% from 260.9 million in March 2019.

Others

Other revenue increased by 10.0% from RMB447.8 million in the first quarter of 2019 to RMB492.6 million in the first 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 9.3% from RMB38.5 billion in the first quarter of 2019 to RMB42.1 billion in the first quarter of 2020. The following table sets forth our cost of sales by line of business in the first quarter of 2020 and the first quarter of 2019:

	Unaudited			
	Three months ended			
	March 31, 2020		March 31, 2019	
	Amount	% of total	Amount	% of total
	revenue			
	(RMB in millions, unless specified)			
Smartphones	27,872.3	56.1%	26,123.7	59.7%
IoT and lifestyle products	11,242.9	22.6%	10,594.3	24.2%
Internet services	2,529.1	5.1%	1,387.7	3.2%
Others	499.4	1.0%	435.5	1.0%
Total cost of sales	<u>42,143.7</u>	<u>84.8%</u>	<u>38,541.2</u>	<u>88.1%</u>

Smartphones

Cost of sales related to our smartphones segment increased by 6.7% from RMB26.1 billion in the first quarter of 2019 to RMB27.9 billion in the first 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 6.1% from RMB10.6 billion in the first quarter of 2019 to RMB11.2 billion in the first 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 82.3% from RMB1.4 billion in the first quarter of 2019 to RMB2.5 billion in the first quarter of 2020, primarily due to the increased sales of our gaming and fintech businesses.

Others

Cost of sales related to our others segment increased by 14.7% from RMB435.5 million in the first quarter of 2019 to RMB499.4 million in the first quarter of 2020, primarily due to the increased installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 44.9% from RMB5.2 billion in the first quarter of 2019 to RMB7.6 billion in the first quarter of 2020. The gross profit margin from our smartphones segment increased from 3.3% in the first quarter of 2019 to 8.1% in the first quarter of 2020. The first quarter of 2019 was a period of adjustment for our overseas markets, with the promotion of some of our smartphone models in preparation for the launch of our new smartphone models between late February and March 2019, causing the lower gross profit margin in the period. In the first quarter of 2020, we launched several popular models such as *Mi 10* and *Mi 10 Pro*, which were highly regarded in the market for their outstanding performance. The gross profit margin from our smartphones segment increased in the first quarter of 2020 following the launch of our new products.

The gross profit margin from our IoT and lifestyle products segment increased from 12.0% in the first quarter of 2019 to 13.4% in the first quarter of 2020 due to higher revenue contribution from IoT products with higher gross profit margin. The gross profit margin from our internet services segment decreased from 67.4% in the first quarter of 2019 to 57.1% in the first quarter of 2020, mainly due to higher revenue contribution from our gaming and other value added services businesses which have lower gross profit margin than our advertising business, and the decline of gross profit margin from our fintech business. In the first quarter of 2020, due to the pandemic, we increased provision for loss allowance for our fintech business.

As a result of the foregoing, our gross profit margin increased from 11.9% in the first quarter of 2019 to 15.2% in the first quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 42.3% from RMB1.8 billion in the first quarter of 2019 to RMB2.6 billion in the first quarter of 2020, primarily due to the increase in promotion and advertising expenses. Promotion and advertising expenses increased 187.0% from RMB296.8 million in the first quarter of 2019 to RMB851.8 million in the first quarter of 2020, primarily due to our elevated marketing efforts for our 5G and other premium smartphone models to increase brand awareness both in mainland China and overseas markets in the first quarter of 2020.

Administrative Expenses

Our administrative expenses increased by 23.7% from RMB632.0 million in the first quarter of 2019 to RMB781.5 million in the first quarter of 2020, primarily due to the increase in compensation costs for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 13.4% from RMB1.7 billion in the first quarter of 2019 to RMB1.9 billion in the first 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 decreased by 86.8% from a gain of RMB2.6 billion in the first quarter of 2019 to a gain of RMB0.3 billion in the first quarter of 2020, primarily due to less fair value gains of equity and preferred share investments in the first 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 RMB145.4 million in the first quarter of 2019 to a net gain of RMB130.7 million in the first quarter of 2020, primarily due to the gain on deemed disposal of an investee company, partially offset by share of loss of iQIYI, Inc. (Nasdaq: IQ) in the first quarter of 2020.

Other Income

Our other income increased by 22.4% from RMB60.2 million in the first quarter of 2019 to RMB73.7 million in the first quarter of 2020, primarily due to the increase of value-added tax and other tax refunds.

Other Losses, Net

Our other net losses changed from RMB21.7 million in the first quarter of 2019 to RMB510.2 million in the first quarter of 2020. This was mainly due to the foreign exchange losses of RMB503.3 million in the first quarter of 2020, compared to foreign exchange gains in the first quarter of 2019.

Finance Income, Net

Our net finance income increased by 27.1% from RMB103.0 million in the first quarter of 2019 to RMB130.9 million in the first quarter of 2020, primarily due to the increase of interest income.

Income Tax Expenses

Our income tax expenses decreased by 44.0% from RMB525.4 million in the first quarter of 2019 to RMB294.2 million in the first quarter of 2020, primarily due to the lower taxable profit recorded for the period.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.2 billion in the first quarter of 2020, compared with a profit of RMB3.2 billion in the first quarter of 2019.

First Quarter of 2020 Compared with Fourth Quarter of 2019

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

	Unaudited	
	Three months ended	
	March 31,	December 31,
	2020	2019
	(RMB in millions)	
Revenue	49,702.2	56,469.7
Cost of sales	(42,143.7)	(48,626.4)
Gross profit	7,558.5	7,843.3
Selling and marketing expenses	(2,624.9)	(3,701.1)
Administrative expenses	(781.5)	(904.6)
Research and development expenses	(1,871.0)	(2,252.7)
Fair value changes on investments measured at fair value through profit or loss	347.8	1,818.4
Share of gains/(losses) of investments accounted for using the equity method	130.7	(273.8)
Other income	73.7	350.9
Other losses, net	(510.2)	(183.3)
Operating profit	2,323.1	2,697.1
Finance income, net	130.9	19.2
Profit before income tax	2,454.0	2,716.3
Income tax expenses	(294.2)	(280.1)
Profit for the period	2,159.8	2,436.2
Non-IFRS measure: Adjusted Net Profit	2,300.5	2,344.4

Revenue

Revenue decreased by 12.0% to RMB49.7 billion in the first quarter of 2020 on a quarter-on-quarter basis. The following table sets forth our revenue by line of business in the first quarter of 2020 and the fourth quarter of 2019:

	Unaudited			
	Three months ended		December 31, 2019	
	March 31, 2020		December 31, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	30,324.7	61.0%	30,796.8	54.5%
IoT and lifestyle products	12,984.2	26.1%	19,494.0	34.5%
Internet services	5,900.7	11.9%	5,695.1	10.1%
Others	492.6	1.0%	483.8	0.9%
Total revenue	<u>49,702.2</u>	<u>100.0%</u>	<u>56,469.7</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 1.5% from RMB30.8 billion in the fourth quarter of 2019 to RMB30.3 billion in the first quarter of 2020 due to seasonality and the lower sales activity and production disruption caused by the pandemic. We sold 29.2 million smartphone units in the first quarter of 2020, compared to 32.6 million units in the fourth quarter of 2019. The ASP of our smartphones was RMB1,038.0 per unit in the first quarter of 2020, compared with RMB945.1 per unit in the fourth quarter of 2019. The increase in ASP was primarily due to the launch of 5G and other premium smartphone models in the first quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment decreased by 33.4% from RMB19.5 billion in the fourth quarter of 2019 to RMB13.0 billion in the first quarter of 2020. Revenue from smart TVs and laptops decreased by 41.4% from RMB7.9 billion in the fourth quarter of 2019 to RMB4.6 billion in the first quarter of 2020. The decrease in revenue was primarily due to seasonality and the lower sales activity and production disruption caused by the pandemic.

Internet services

Revenue from our internet services segment increased by 3.6% from RMB5.7 billion in the fourth quarter of 2019 to RMB5.9 billion in the first quarter of 2020, primarily due to the growth of our gaming business.

Others

Other revenue increased by 1.8% from RMB483.8 million in the fourth quarter of 2019 to RMB492.6 million in the first quarter of 2020.

Cost of Sales

Our cost of sales decreased by 13.3% from RMB48.6 billion in the fourth quarter of 2019 to RMB42.1 billion in the first quarter of 2020. The following table sets forth our cost of sales by line of business in the first quarter of 2020 and the fourth quarter of 2019:

	Unaudited			
	Three months ended			
	March 31, 2020		December 31, 2019	
	Amount	% of total	Amount	% of total
		revenue		revenue
	(RMB in millions, unless specified)			
Smartphones	27,872.3	56.1%	28,405.3	50.3%
IoT and lifestyle products	11,242.9	22.6%	17,659.2	31.3%
Internet services	2,529.1	5.1%	2,068.4	3.7%
Others	499.4	1.0%	493.5	0.8%
Total cost of sales	<u>42,143.7</u>	<u>84.8%</u>	<u>48,626.4</u>	<u>86.1%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 1.9% from RMB28.4 billion in the fourth quarter of 2019 to RMB27.9 billion in the first quarter of 2020, due to the decreased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment decreased by 36.3% from RMB17.7 billion in the fourth quarter of 2019 to RMB11.2 billion in the first quarter of 2020, primarily due to the decreased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment increased by 22.3% from RMB2.1 billion in the fourth quarter of 2019 to RMB2.5 billion in the first quarter of 2020, primarily due to the increased cost of our fintech business. In the first quarter of 2020, due to the pandemic, we increased the provision for loss allowance for our fintech business.

Others

Cost of sales related to our others segment increased by 1.2% from RMB493.5 million in the fourth quarter of 2019 to RMB499.4 million in the first quarter of 2020.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 3.6% from RMB7.8 billion in the fourth quarter of 2019 to RMB7.6 billion in the first quarter of 2020. The gross profit margin from our smartphones segment increased from 7.8% in the fourth quarter of 2019 to 8.1% in the first quarter of 2020, mainly due to enhanced marketing efforts during various online shopping festivals in the fourth quarter of 2019.

The gross profit margin from our IoT and lifestyle products segment increased from 9.4% in the fourth quarter of 2019 to 13.4% in the first quarter of 2020, mainly due to enhanced marketing efforts during various online shopping festivals in the fourth quarter of 2019. The gross profit margin from our internet services segment decreased from 63.7% in the fourth quarter of 2019 to 57.1% in the first quarter of 2020, mainly due to higher revenue contribution from our gaming and other value added services businesses which have lower gross profit margin than our advertising business, and the decline of gross profit margin from our fintech business. In the first quarter of 2020, due to the pandemic, we increased provision for loss allowance for our fintech business.

As a result of the foregoing, our gross profit margin increased from 13.9% in the fourth quarter of 2019 to 15.2% in the first quarter of 2020.

Selling and Marketing Expenses

Our selling and marketing expenses decreased by 29.1% from RMB3.7 billion in the fourth quarter of 2019 to RMB2.6 billion in the first quarter of 2020, primarily due to the decrease in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses decreased 44.2% from RMB1,527.5 million in the fourth quarter of 2019 to RMB851.8 million in the first quarter of 2020, primarily because fewer promotional activities were carried out during the pandemic.

Administrative Expenses

Our administrative expenses decreased by 13.6% from RMB904.6 million in the fourth quarter of 2019 to RMB781.5 million in the first quarter of 2020, primarily due to the decrease of professional service fees during the pandemic.

Research and Development Expenses

Our research and development expenses decreased by 16.9% from RMB2.3 billion in the fourth quarter of 2019 to RMB1.9 billion in the first quarter of 2020, primarily due to the increased research and development efforts in the fourth quarter of 2019 for the launch of our premium smartphone models this year.

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 decreased by 80.9% from a gain of RMB1,818.4 million in the fourth quarter of 2019 to a gain of RMB347.8 million in the first quarter of 2020, primarily due to the lower fair value gains of equity and preferred share investments in the first 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 RMB273.8 million in the fourth quarter of 2019 to a net gain of RMB130.7 million in the first quarter of 2020, primarily due to the gain on deemed disposal of an investee company, partially offset by share of loss of iQIYI, Inc. (Nasdaq: IQ) in the first quarter of 2020.

Other Income

Our other income decreased by 79.0% from RMB350.9 million in the fourth quarter of 2019 to RMB73.7 million in the first quarter of 2020, primarily due to the decrease of investment income from short-term investments measured at fair value through profit or loss in the first quarter of 2020.

Other Losses, Net

Our other net losses were RMB510.2 million in the first quarter of 2020, compared with net losses of RMB183.3 million in the fourth quarter of 2019. This is mainly due to the foreign exchange losses of RMB503.3 million in the first quarter of 2020.

Finance Income, Net

Our net finance income increased by 582.3% from RMB19.2 million in the fourth quarter of 2019 to RMB130.9 million in the first quarter of 2020, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 5.0% from RMB280.1 million in the fourth quarter of 2019 to RMB294.2 million in the first quarter of 2020, primarily due to the increase of non-deductible expenses in the first quarter of 2020.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.2 billion in the first quarter of 2020, compared with a profit of RMB2.4 billion in the fourth quarter of 2019.

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 first quarters of 2020 and 2019, respectively, and the fourth quarter of 2019 to the nearest measures prepared in accordance with IFRS.

In the first quarter of 2020, the net fair value changes on investments of RMB386.7 million in the non-IFRS adjustments include gain on deemed disposal of an equity investee of RMB344.5 million, and the fair value gains on investments measured at fair value through profit or loss of RMB347.8 million (before tax) offset by the pre-tax net gains on disposal of investments of RMB305.6 million (RMB225.9 million post-tax).

	Unaudited						Non-IFRS
	Three Months Ended March 31, 2020						
	Adjustments						
			Amortization of intangible assets	Changes of value of financial liabilities	Income tax effects ⁽⁴⁾		
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	resulting from acquisitions ⁽²⁾	to fund investors ⁽³⁾		
	(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 March 31, 2019
Adjustments

	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the period	3,191,744	630,752	(1,800,683)	1,467	—	57,391	2,080,671
Net margin	7.3%						4.8%

Unaudited
Three Months Ended December 31, 2019
Adjustments

	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the period	2,436,219	597,150	(959,935)	79	190,298	80,595	2,344,406
Net margin	4.3%						4.2%

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, Financial Resources and Gearing

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, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB25.1 billion and RMB25.9 billion as of March 31, 2020 and December 31, 2019, 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 March 31, 2020, the aggregate amount of cash resources of the Group was RMB55.0 billion.

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	March 31, 2020	December 31, 2019
	(in thousands of RMB)	
Net cash (used in)/generated from operating activities ⁽¹⁾	(8,205,339)	9,902,353
Net cash generated from/(used in) investing activities	8,210,391	(19,801,274)
Net cash (used in)/generated from financing activities ⁽¹⁾	(1,231,329)	544,270
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,226,277)	(9,354,651)
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	25,919,861	35,539,164
Effects of exchange rate changes on cash and cash equivalents	380,103	(264,652)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<u>25,073,687</u>	<u>25,919,861</u>

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; and (3) the increase in restricted cash resulting from the fintech business, the net cash used in operating activities was RMB11.9 billion in the first quarter of 2020 and the net cash generated from operating activities was RMB11.3 billion in the fourth quarter of 2019, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB211.9 million in the first quarter of 2020 and the net cash generated from financing activities was RMB271.5 million in the fourth quarter of 2019, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group’s auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Used In Operating Activities

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

In the first quarter of 2020, net cash used in our operating activities amounted to RMB8.2 billion, representing cash used in operations of RMB7.5 billion plus income tax paid of RMB0.7 billion. Cash used in operations was primarily attributable to our profit before income tax of RMB2.5 billion, offset by a decrease in trade payables of RMB5.5 billion, a decrease in advance from customers of RMB2.9 billion and an increase in inventories of RMB1.9 billion.

Net Cash Generated From Investing Activities

For the first quarter of 2020, our net cash generated from investing activities was RMB8.2 billion, which was primarily attributed to the net changes of short-term bank deposits of RMB8.4 billion.

Net Cash Used In Financing Activities

For the first quarter of 2020, our net cash used in financing activities was RMB1.2 billion, which was primarily attributed to the net changes of borrowings of RMB1.3 billion.

Borrowings

As of December 31, 2019 and March 31, 2020, we had total borrowings of RMB17.6 billion and RMB16.5 billion, respectively.

Capital Expenditure

	Three months ended	
	March 31, 2020	December 31, 2019
	(in thousands of RMB)	
Capital expenditures	642,252	1,076,415
Placement of long-term investments ⁽¹⁾	2,449,658	1,207,067
Total	<u>3,091,910</u>	<u>2,283,482</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 March 31, 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 March 31, 2020, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the three months ended March 31, 2020, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of March 31, 2020, we had 18,474 full-time employees, 17,071 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 March 31, 2020, our research and development personnel, totaling 8,984 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 March 31, 2020, 15,552 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the first quarter of 2020 were RMB2,209.9 million, representing a decrease of 6.6% from the fourth quarter of 2019.

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 March 31, 2020, we pledged a restricted deposit of RMB1,372.8 million, compared with RMB1,538.3 million as of December 31, 2019.

Contingent Liabilities

As of March 31, 2020, we did not have any material contingent liabilities, compared with nil as of December 31, 2019.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2020

(Expressed in Renminbi (“RMB”))

	Note	Unaudited Three months ended March 31,	
		2020 RMB'000	2019 RMB'000
Revenue	2	49,702,167	43,756,823
Cost of sales	3	(42,143,710)	(38,541,246)
Gross profit		7,558,457	5,215,577
Selling and marketing expenses	3	(2,624,873)	(1,844,684)
Administrative expenses	3	(781,533)	(632,022)
Research and development expenses	3	(1,870,984)	(1,650,579)
Fair value changes on investments measured at fair value through profit or loss	5	347,846	2,632,715
Share of gains/(losses) of investments accounted for using the equity method		130,738	(145,392)
Other income		73,727	60,247
Other losses, net		(510,190)	(21,686)
Operating profit		2,323,188	3,614,176
Finance income, net		130,901	102,964
Profit before income tax		2,454,089	3,717,140
Income tax expenses		(294,195)	(525,396)
Profit for the period		2,159,894	3,191,744
Attributable to:			
— Owners of the Company		2,163,515	3,125,959
— Non-controlling interests		(3,621)	65,785
		2,159,894	3,191,744
Earnings per share (expressed in RMB per share):	4		
Basic		0.091	0.132
Diluted		0.089	0.128

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the three months ended March 31, 2020**(Expressed in RMB)*

	Unaudited	
	Three months ended	
	March 31,	
	2020	2019
	RMB'000	RMB'000
Profit for the period	2,159,894	3,191,744
Other comprehensive income/(loss):		
<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	23,436	18,088
Currency translation differences	8,345	111,617
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Currency translation differences	485,447	(593,955)
Other comprehensive income/(loss) for the period, net of tax	517,228	(464,250)
Total comprehensive income for the period	2,677,122	2,727,494
Attributable to:		
— Owners of the Company	2,675,233	2,665,952
— Non-controlling interests	1,889	61,542
	2,677,122	2,727,494

CONDENSED CONSOLIDATED BALANCE SHEET

As of March 31, 2020

(Expressed in RMB)

		Unaudited	Audited
		As of	As of
	Note	March 31,	December 31,
		2020	2019
		RMB'000	RMB'000
Assets			
Non-current assets			
Property and equipment		7,237,359	6,992,331
Intangible assets		1,575,532	1,672,002
Long-term bank deposits		2,380,221	590,157
Investments accounted for using the equity method		9,461,302	9,300,507
Long-term investments measured at fair value through profit or loss	5	22,835,985	20,679,363
Deferred income tax assets		1,474,459	1,283,415
Other non-current assets		5,760,594	5,572,346
		<u>50,725,452</u>	<u>46,090,121</u>
Current assets			
Inventories	7	34,111,461	32,585,438
Trade receivables	6	7,819,380	6,948,567
Loan receivables		11,485,919	12,723,503
Prepayments and other receivables		19,051,834	19,837,018
Short-term investments measured at fair value through profit or loss	5	13,004,240	16,463,390
Short-term bank deposits		13,129,091	21,523,043
Restricted cash		1,372,798	1,538,266
Cash and cash equivalents		25,073,687	25,919,861
		<u>125,048,410</u>	<u>137,539,086</u>
Total assets		<u><u>175,773,862</u></u>	<u><u>183,629,207</u></u>

	Note	Unaudited As of March 31, 2020 RMB'000	Audited As of December 31, 2019 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		389	388
Reserves		<u>84,579,156</u>	<u>81,330,186</u>
		<u>84,579,545</u>	<u>81,330,574</u>
Non-controlling interests		<u>329,096</u>	<u>327,102</u>
Total equity		<u><u>84,908,641</u></u>	<u><u>81,657,676</u></u>
Liabilities			
Non-current liabilities			
Borrowings	8	5,351,211	4,786,856
Deferred income tax liabilities		532,735	579,902
Warranty provision		686,294	667,857
Other non-current liabilities		<u>3,802,894</u>	<u>3,756,211</u>
		<u>10,373,134</u>	<u>9,790,826</u>
Current liabilities			
Trade payables	9	53,910,210	59,527,940
Other payables and accruals		7,454,360	9,101,343
Advance from customers		5,320,609	8,237,119
Borrowings	8	11,129,841	12,836,555
Income tax liabilities		496,149	479,350
Warranty provision		<u>2,180,918</u>	<u>1,998,398</u>
		<u>80,492,087</u>	<u>92,180,705</u>
Total liabilities		<u><u>90,865,221</u></u>	<u><u>101,971,531</u></u>
Total equity and liabilities		<u><u>175,773,862</u></u>	<u><u>183,629,207</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2020

(Expressed in RMB)

	Unaudited	
	Three months ended	
	March 31,	
	2020	2019
	RMB'000	RMB'000
Net cash used in operating activities	(8,205,339)	(117,783)
Net cash generated from/(used in) investing activities	8,210,391	(2,372,212)
Net cash used in financing activities	<u>(1,231,329)</u>	<u>(485,696)</u>
Net decrease in cash and cash equivalents	(1,226,277)	(2,975,691)
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	380,103	<u>(781,325)</u>
Cash and cash equivalents at the end of the period	<u>25,073,687</u>	<u>26,473,131</u>

1 Basis of preparation

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of March 31, 2020, the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**Interim Financial Information**”). The Interim Financial Information is presented in RMB, unless otherwise stated.

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

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

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

2 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. There were no material inter-segment sales during the three months ended March 31, 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 segment results for the three months ended March 31, 2020 and 2019 are as follows:

	Three months ended March 31, 2020				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	30,324,723	12,984,208	5,900,696	492,540	49,702,167
Cost of sales	(27,872,334)	(11,242,932)	(2,529,144)	(499,300)	(42,143,710)
Gross profit/(loss)	2,452,389	1,741,276	3,371,552	(6,760)	7,558,457
Three months ended March 31, 2019					
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	27,008,652	12,042,953	4,257,317	447,901	43,756,823
Cost of sales	(26,123,653)	(10,594,311)	(1,387,670)	(435,612)	(38,541,246)
Gross profit	884,999	1,448,642	2,869,647	12,289	5,215,577

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 ended March 31, 2020 and 2019, the geographical information on the total revenues is as follows:

	Three months ended March 31,			
	2020		2019	
	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)	
Mainland China	24,870,044	50.0	26,960,489	61.6
Rest of the world (Note(a))	24,832,123	50.0	16,796,334	38.4
	<u>49,702,167</u>		<u>43,756,823</u>	

Note:

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

3 Expenses by nature

	Three months ended	
	March 31,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	36,844,207	34,215,147
Provision for impairment of inventories	409,339	1,105,875
Royalty fees	1,526,460	1,003,392
Employee benefit expenses	2,209,921	2,039,356
Depreciation of property and equipment and right-of-use assets and investment properties	229,692	209,770
Amortization of intangible assets	122,228	124,647
Promotion and advertising expenses	851,772	296,819
Content fees to game developers and video providers	688,934	372,562
Credit loss allowance for loan receivables	491,554	187,006
Consultancy and professional service fees	194,210	123,249
Cloud service, bandwidth and server custody fees	453,912	491,553
Warranty expenses	637,878	598,982

4 Earnings per share

(a) Basic

Basic earnings per share for the three months ended March 31, 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	
	March 31,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	2,163,515	3,125,959
Weighted average number of ordinary shares in issue (thousand shares)	23,835,403	23,684,717
Basic earnings per share (expressed in RMB per share)	0.091	0.132

(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	
	March 31,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	2,163,515	3,125,959
Weighted average number of ordinary shares in issue (thousand shares)	23,835,403	23,684,717
Adjustments for restricted shares units and share options granted to employees (thousand shares)	493,070	794,282
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,328,473	24,478,999
Diluted earnings per share (expressed in RMB per share)	0.089	0.128

5 Investments

	As of March 31, 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	<u>13,004,240</u>	<u>16,463,390</u>
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	8,331,248	7,272,454
— Preferred shares investments	<u>14,504,737</u>	<u>13,406,909</u>
	<u>22,835,985</u>	<u>20,679,363</u>
Amounts recognized in profit or loss		

	Three months ended March 31,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Fair value changes on equity investments	385,848	2,525,421
Fair value changes on preferred shares investments	(155,546)	85,996
Fair value changes on short-term investments measured at fair value through profit or loss	<u>117,544</u>	<u>21,298</u>
	<u>347,846</u>	<u>2,632,715</u>

6 Trade receivables

The Group usually allows a credit period within 180 days to its customers. Aging analysis of trade receivables based on invoice date is as follows:

	As of March 31, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Trade receivables		
Up to 3 months	6,443,870	6,076,873
3 to 6 months	986,104	550,929
6 months to 1 year	304,948	308,197
1 to 2 years	171,793	98,643
Over 2 years	<u>27,709</u>	<u>29,706</u>
	7,934,424	7,064,348
Less: credit loss allowance	<u>(115,044)</u>	<u>(115,781)</u>
	<u>7,819,380</u>	<u>6,948,567</u>

7 Inventories

	As of March 31, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Raw materials	14,873,617	9,347,930
Finished goods	12,628,087	18,030,136
Work in progress	4,431,848	2,422,504
Spare parts	1,739,645	1,733,042
Others	1,149,315	1,925,785
	<u>34,822,512</u>	<u>33,459,397</u>
Less: provision for impairment	<u>(711,051)</u>	<u>(873,959)</u>
	<u><u>34,111,461</u></u>	<u><u>32,585,438</u></u>

8 Borrowings

	As of March 31, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities	2,954,000	2,305,000
Fund raised through trusts	285,000	450,000
Secured borrowings	1,906,211	1,825,856
Unsecured borrowings	206,000	206,000
	<u>5,351,211</u>	<u>4,786,856</u>
Included in current liabilities		
Asset-backed securities	2,209,780	2,647,641
Fund raised through trusts	710,405	420,000
Secured borrowings	1,048,479	1,796,701
Unsecured borrowings	7,161,177	7,972,213
	<u>11,129,841</u>	<u>12,836,555</u>

9 Trade payables

Trade payables primarily include payables for inventories. As of March 31, 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 March 31, 2020 RMB'000 (Unaudited)	As of December 31, 2019 RMB'000 (Audited)
Up to 3 months	51,752,723	57,942,872
3 to 6 months	1,622,689	1,136,595
6 months to 1 year	392,882	342,864
1 to 2 years	72,510	55,709
Over 2 years	69,406	49,900
	<u>53,910,210</u>	<u>59,527,940</u>

10 Events after the reporting period

The Group issued RMB1,000,000,000 bonds in mainland China with a term to maturity of 365 days on April 2, 2020 and US\$600,000,000 of senior notes due 2030 on April 29, 2020, bearing interest of 2.78% and 3.375% per annum, respectively.

OTHER INFORMATION

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

During the three months ended March 31, 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 approximately 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>

As at the date of this announcement, the Shares Repurchased are in the process of being cancelled. Upon cancellation of the Shares Repurchased, the weighted voting rights (“**WVR**”) beneficiaries of the Company will simultaneously reduce 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.

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 three months ended March 31, 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 three months ended March 31, 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 months ended March 31, 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 March 31, 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 March 31, 2020

Save as disclosed in this announcement, there have been no other significant events that might affect the Group after March 31, 2020 and up to the date of this announcement.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, May 20, 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.