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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2019 (the “**Reporting Period**”). The consolidated financial statements for the Reporting Period have been audited by PricewaterhouseCoopers, the independent auditor of the Company (the “**Auditor**”) in accordance with International Standards on Auditing. The 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 (as defined above) and where the context otherwise requires, the Group (as defined above).

KEY HIGHLIGHTS

	Unaudited		
	Three months ended		
	December 31,	December 31,	Year-on-
	2019	2018	year change
	(Renminbi (“RMB”) in millions, unless specified)		
Revenue	56,469.7	44,421.4	27.1%
Gross profit	7,843.3	5,661.2	38.5%
Operating profit	2,697.1	3,213.3	-16.1%
Profit before income tax	2,716.3	3,344.1	-18.8%
Profit for the period	2,436.2	3,392.0	-28.2%
Non-IFRS Measure: Adjusted net profit	2,344.4	1,853.2	26.5%

	Year ended December 31,		
	2019	2018	Year-on- year change
	(RMB in millions, unless specified)		
Revenue	205,838.7	174,915.4	17.7%
Gross profit	28,554.1	22,191.9	28.7%
Operating profit	11,760.2	1,196.5	882.9%
Profit before income tax	12,162.6	13,927.1	-12.7%
Profit for the year	10,102.9	13,477.7	-25.0%
Non-IFRS Measure: Adjusted net profit	11,532.3	8,554.5	34.8%

BUSINESS REVIEW AND OUTLOOK

1. Overall performance

In 2019, we achieved solid growth across all our business segments. Total revenue was RMB205.8 billion, an increase of 17.7% year-over-year. Adjusted net profit was RMB11.5 billion, an increase of 34.8% year-over-year. For the fourth quarter of 2019, we recorded RMB56.5 billion in revenue, an increase of 27.1% year-over-year, while adjusted net profit was RMB2.3 billion, an increase of 26.5% year-over-year.

Our “Smartphone + AIoT” dual-engine strategy has made solid progress during the year. For the fourth quarter of 2019, we achieved the highest year-over-year growth in smartphone shipments among the top five smartphone companies, according to Canalys. In December 2019, monthly active users (“MAU”) of MIUI increased by 27.9% year-over-year to 309.6 million. As one of the world’s leading consumer IoT platforms, we continued to expand our IoT user base. As of December 31, 2019, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached 234.8 million, an increase of 55.6% year-over-year. Our AI assistant “小愛同學” had 60.4 million MAU in December 2019, an increase of 55.7% year-over-year.

We further expanded our global footprint with overseas revenue growing significantly, accounting for 44.3% of our total revenue in 2019. Overseas revenue was RMB91.2 billion, an increase of 30.4% year-over-year. As of December 31, 2019, our products were sold in more than 90 countries and regions. According to Canalys, our smartphone shipments ranked top five in 45 countries and regions in 2019.

During the transition from 4G to 5G technology in 2019, we operated prudently in mainland China and focused on maintaining healthy cash flows and inventory levels. At the same time, we stepped up our investment in research and development. In 2019, our research and development expenses increased by 29.7% year-over-year to RMB7.5 billion. As of December 31, 2019, our total cash resources amounted to RMB66.0 billion. Our strong cash position and healthy smartphone inventory level positioned us well to capture 5G opportunities in 2020.

2. Smartphones

In 2019, revenue from our smartphones segment reached RMB122.1 billion, an increase of 7.3% year-over-year. In the fourth quarter of 2019, revenue from our smartphones segment was RMB30.8 billion, an increase of 22.8% year-over-year. For 2019, we shipped approximately 124.6 million units of smartphones, while in the fourth quarter of 2019, shipments were approximately 32.6 million, an increase of 30.5% year-over-year.

In 2019, our dual-brand strategy showed encouraging results. The Xiaomi brand focused on pioneering advanced technologies and successfully established a solid foothold in the premium smartphones segment. The Redmi brand, on the other hand, continued to pursue the ultimate price-performance ratio across different price points and make innovative technologies readily accessible to the mass market.

Our relentless efforts in pursuing quality and innovation laid a solid foundation for our entrance into the premium smartphones segment. With the launch of *Mi 9 Pro*, *Mi CC9 Pro* and the world's first smartphone featuring surround display, *Mi MIX Alpha*, we developed strong technological fundamentals in wireless charging, imaging, 5G technology and next-generation smartphone design and are well poised to capture opportunities brought about by 5G technology in 2020. In February 2020, we launched our flagship 5G smartphone models the *Mi 10* and *Mi 10 Pro*. The *Mi 10* series offers ultimate user experience by deploying industry leading processor, display, camera, acoustic and fast charging technologies. Upon its debut, the *Mi 10 Pro* received the highest score of 124 points from DXOMARK for overall camera, and was ranked first for both video and photography performance. The *Mi 10 Pro's* audio score also topped DXOMARK's table on audio ranking at the time of launch with its symmetrical dual 1216 linear speakers. The *Mi 10* series smartphones are priced between RMB3,999 and RMB5,999 in mainland China, and received positive market responses with shipments exceeding our original target.

Our Redmi brand has gained widespread popularity in the market. According to Canalys, the *Redmi Note 7* was the best-selling smartphone model among all models made by Chinese companies in terms of global shipments in 2019. In December 2019, Redmi launched its first 5G smartphone, the *Redmi K30 5G*, with pricing starting from RMB1,999, making it the first 5G smartphone priced below RMB2,000. We believe the competitive pricing will accelerate the adoption of 5G smartphones by a larger population, enabling more people to enjoy leading technologies.

In 2019, the average selling price (“ASP”) of our smartphones increased by 2.2% compared to 2018 and the gross margin of the smartphones segment increased to 7.2% from 6.2% in 2018. In 2020, we will continue to focus on 5G smartphones development and strengthen our presence in the premium smartphones segment, which will lead to further ASP expansion.

3. IoT and lifestyle products

In 2019, revenue from our IoT and lifestyle products segment was RMB62.1 billion, an increase of 41.7% year-over-year. In the fourth quarter of 2019, revenue from our IoT and lifestyle products segment was RMB19.5 billion, an increase of 30.5% year-over-year.

We continued to grow our IoT product portfolio and enhance the connectivity and user experience across devices. We achieved leading positions in key IoT products that are controlling hubs for our AIoT platform, including TVs, wearable devices and smart speakers.

In 2019, our global TV shipments reached 12.8 million units, an increase of 51.9% year-over-year. In mainland China, our annual smart TV shipments exceeded 10 million units, which we believe set an unprecedented record in China's TV industry. According to AVC, our TV shipments ranked first in mainland China and fifth globally in 2019. We also ranked first in India in terms of smart TV shipments for seven consecutive quarters as of the fourth quarter of 2019 according to IDC (International Data Corporation).

According to Canalys, we were the world's largest smart wearable device (including smart watch and wristband) brand in 2019 by shipments. We also ranked top three in terms of smart speaker shipments in mainland China in 2019 according to IDC. We also continued to expand our product portfolio in key smart home products by launching new products including washing machines and refrigerators.

In 2019, our IoT products won over 50 renowned design awards around the world. Recently, our *Mijia Smart Baseboard Heater* won the 2020 Red Dot: Best of the Best Award and *Mijia Handheld Wireless Vacuum Cleaner* won the 2020 iF Design Gold Award.

4. Internet services

In 2019, revenue from internet services reached RMB19.8 billion, an increase of 24.4% year-over-year. For the fourth quarter, revenue was RMB5.7 billion, an increase of 41.1% year-over-year.

In December 2019, MAU of MIUI increased by 27.9% year-over-year to 309.6 million with mainland China's MAU of MIUI standing at 109.0 million.

In the fourth quarter of 2019, advertising revenue was RMB3.0 billion, an increase of 17.8% year-over-year. The increase was attributable to our consistent improvement in our mobile internet services which enhanced user engagement. For example, the MAU of our news feed service increased by 32.6% year-over-year to 78.7 million in December 2019. This was further bolstered by our efforts in increasing monetization through optimization of our recommendation algorithms and diversification of our advertising customer base by expanding into more vertical industries.

In the fourth quarter of 2019, online gaming revenue increased by 44.4% year-over-year to RMB874.4 million, mainly due to the strong performance of many popular games operating on our platform.

Diversification of our internet services has become a key growth driver of our internet services revenue. In the fourth quarter of 2019, our 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 112.6% year-over-year and accounted for 43.0% of our total internet services revenue.

In 2019, the GMV of our Youpin e-commerce business grew rapidly, with annual GMV surpassing RMB10.0 billion. During the year, we have enlarged our merchandise portfolio, insisted on selecting high quality goods that appeal to our customers and increased our efforts in new customer acquisition. As a result, the number of active buyers on Youpin showed strong growth momentum.

In the fourth quarter of 2019, our fintech business delivered strong revenue growth, mainly driven by the growth in our consumer finance business. In January 2020, Xiaomi Finance successfully obtained a consumer-financing license from the China Banking and Insurance Regulatory Commission. We will continue to strengthen risk controls and strictly follow regulatory rules to maintain the healthy growth of our fintech business.

In the fourth quarter of 2019, our TV internet services grew quickly primarily driven by the growth of our subscription business. In December 2019, MAU of our smart TVs and *Mi Box* were approximately 27.7 million, an increase of 49.1% year-over-year. As of December 31, 2019, we had 3.7 million paying subscribers, an increase of 62.9% year-over-year.

Lastly, our overseas internet services business also witnessed rapid growth. In India, 10 of our mobile apps recorded MAU of over 50 million in December 2019, including our *Mi Browser*, *Mi Video* and *GetApps* (overseas version of *Mi App Store*). With our large and growing overseas user base, we have successfully attracted an increasing number of advertisers and further expanded the average revenue per user in overseas markets.

5. Overseas markets

In 2019, overseas revenue was RMB91.2 billion, an increase of 30.4% year-over-year. In the fourth quarter of 2019, overseas revenue increased by 40.7% year-over-year to RMB26.4 billion, accounting for 46.8% of total revenue for the period.

In the fourth quarter of 2019, we were the largest smartphone brand in India by shipments for the tenth consecutive quarter, capturing a market share of approximately 28.7%, according to IDC.

In Western Europe, we continued to expand our market share. According to Canalys, our smartphone shipments in the region grew 115.4% year-over-year in the fourth quarter of 2019. In Spain, we were the second largest smartphone maker by shipments, achieving 65.7% year-over-year growth with a 22.8% market share. We ranked fourth in both France and Italy, with our smartphone shipments increasing by 69.9% and 206.2% year-over-year, respectively. We will continue to invest in overseas markets and expand our sales channels, including strengthening our cooperation with telecom operators.

In 2019, our overseas IoT revenue grew rapidly, driven by the robust sales of our best-selling IoT products in overseas markets, including our smart TVs, wristbands, TWS earphones and electric scooters. In 2020, we plan to step up our efforts in promoting our popular IoT products to more countries and regions.

6. Impact of the COVID-19 outbreak

In early 2020, a novel coronavirus (“**COVID-19**”) epidemic spread across the world, disrupting the lives and work of many people. Since the beginning of the outbreak, we have been donating medical supplies and funds as a responsible corporate citizen to support the global fight against COVID-19.

In terms of supply chain, we experienced a temporary disruption in production in February and March 2020, due to the extended shutdown of Chinese factories. However, our production capacity has recovered to 80%–90% of normal levels as of the date of this announcement.

For our mainland China market, during the peak of the outbreak, our offline sales were affected as most of our stores were closed or operated at shortened hours with significantly lower customer traffic. However, we were comparatively less impacted due to our strength in online channels. We have seen smartphone shipments rebounding quickly in late March 2020, showing the resilience of smartphone demand.

For our overseas market, given that the epidemic is still affecting countries and regions around the world as of the date of this announcement, we are closely monitoring and assessing its impact, which will likely defer the overall consumption in the affected countries. While our overseas demand will undoubtedly be affected, particularly in the second quarter of 2020, we believe the overall impact is currently manageable. This is partly due to the reliance of people on smartphones and some other IoT devices to connect with each other during periods of social distancing, something we learned from our experience in mainland China earlier in the year. With a strong global foothold and continuous expansion into new markets, we remain optimistic about the long-term potential of our overseas markets.

Lastly, for internet services, the user traffic of our content driven services, such as video and online games, recorded solid growth as people spent longer periods of time at home. In the meantime, our advertising business could potentially be impacted if our advertising customers decrease their budgets.

7. Strategic update

5G+AIoT

5G+AIoT offers a large growth opportunity for Xiaomi. We are well poised to capture this opportunity by integrating 5G and AIoT technologies into our products, platforms and services.

As of December 31, 2019, the number of IoT devices (excluding smartphones and laptops) on our IoT platform reached 234.8 million units, an increase of 55.6% year-over-year. The number of users who had five or more connected devices reached 4.1 million, an increase of 77.3% year-over-year. In December 2019, our AI voice assistant “小愛同學” had 60.4 million MAU, an increase of 55.7% year-over-year. In December 2019, MAU of our *Mi Home* reached 36.8 million and about two thirds of the users were from non-Xiaomi smartphones.

In 2019, we continued our innovation efforts and launched an upgraded version of our voice AI assistant “小愛同學”, which supports new functions including duplex continuous conversation, intuitive graphical and voice user interface, AI smartphone assistant and voiceprint recognition. The newly added functions received highly positive responses by our users.

Our AI voice assistant “小愛同學” has been installed on more and more devices including TVs, smart watches, wristbands, earphones, etc. As of the date of this announcement, our AI voice assistant “小愛同學” can control about 800 IoT products, covering various uses cases in daily lives and bringing the convenience of smart living to our users.

Investments

As of December 31, 2019, the Company had invested in more than 290 companies with an aggregated book value of approximately RMB30.0 billion.

We expanded our investment into supply chain companies to strengthen our partnership with key component suppliers, enhance our sourcing and manufacturing abilities in advanced technology and facilitate the development of the industries, in particular around 5G, IoT, AI, integrated circuits, advanced manufacturing and industrial internet.

An increasing number of our investee companies have gone public. In February 2020, Roborock, one of our investee companies, was successfully listed on the Science and Technology Innovation Board of Shanghai Stock Exchange (“**STAR Market**”) in China, becoming our first ecosystem investee company to list on the STAR Market. This is a recognition of our ecosystem business model by the Chinese capital markets. As our businesses continue to grow, we believe more of our investee companies will go public over time.

Leveraging our capabilities in supply chain and industrial design, as well as our superior brand and sales networks, we have empowered our investee companies and helped accelerate their growth. We believe our investments have not only allowed us to establish close partnerships with the investee companies, but have also generated recurring investment income for us. In the fourth quarter of 2019, net gains on disposal of investments (after tax) were RMB869.0 million.

Our Pledge

Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. In order to achieve this, as approved by our Board in May 2018, we pledged to our existing and potential users that starting from 2018, the Xiaomi Hardware Business (“**HB**”), including smartphones and IoT and lifestyle products would have an overall net profit margin that would not exceed 5.0% per year. If the net margin exceeds 5.0%, we will return the excess above 5.0% to our users. In 2019, our hardware business was profitable with an overall net margin of less than 1%, fulfilling our pledge. (For the definition of hardware business net margin, please refer to Hardware Business Net Margin.)

Outlook and Strategy

— Unwavering focus on innovation, quality, design and user experience

We will continue to pursue artisanal craftsmanship in all our products and relentlessly focus on technological innovation, quality and design, to drive high-quality user experience and grow our loyal and engaged user base. We will continue to invest in research and development and prudently manage our high-quality human capital to maintain our leadership position in innovation, quality, design and user experience. In particular, we will invest in research and development with a close focus on 5G and AIoT. We plan to invest RMB50.0 billion in these areas in the next five years.

— Fortify our leadership in AIoT

Leveraging our powerful AIoT platform and innovative smart devices, we strive to connect all facets of our users’ life and fortify our leading position in smart living. We will continue to expand our product portfolio by focusing on innovation and product design, offer more intelligent user experiences and application scenarios, and enhance the connectivity and compatibility of our devices across the platform. We will further promote our open AIoT platform to attract more users and collaborate with more partners, thereby further enhancing the products and services available on our AIoT platform.

— Maintain relentless efficiency

Our highly efficient omni-channel new retail distribution platform is a core component of our strategy, and enables us to maintain high efficiencies while broadening the coverage of user base and enhancing user experience. We will continue to enhance our highly efficient online and offline retail channels, boost supply chain cost efficiencies and drive distribution efficiencies to ensure the continued price accessibility of our products and services to grow our user base.

— Enrich our internet services

We will further develop and diversify our internet services offerings to enhance user engagement and improve user experience. We believe that internet services will enable us to continue to grow our user base and increase user monetization, which will boost our financial growth and profitability. We intend to leverage our advanced big data and artificial intelligence capabilities to analyze our proprietary data to improve user experience via smarter and more customized services. We have been diversifying our internet services revenue outside of gaming and advertising from Chinese smartphones in recent years, expanding our services including Youpin ecommerce, fintech business, TV and other IoT services, and overseas internet services. We will continue to diversify our internet service offerings to improve monetization.

— Broaden our international expansion

Overseas markets offer us tremendous room to grow. We intend to leverage our strong execution capabilities to continue to extend and localize our unique business model internationally in order to grow our user base and increase user monetization. We will further boost our market share in places where we have already established a strong foothold, including India, Europe, Southeast Asia and Latin America. We will also actively explore opportunities in new regions.

— Invest in and expand our ecosystem

We will continue to identify, invest in and incubate promising companies, primarily in the fields of IoT and mobile internet services, in order to further expand our ecosystem. We aspire to strengthen our ecosystem partners and enable them to grow rapidly and develop innovative, high-quality, well-designed products and services with exceptional user experience for our users. By expanding our ecosystem, we can accelerate the rollout of new complementary products and services, enabling us to grow our user base in mainland China and globally.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table sets forth the comparative figures for the years ended December 31, 2019 and 2018:

	Year ended December 31,	
	2019	2018
	(RMB in millions)	
Revenue	205,838.7	174,915.4
Cost of sales	(177,284.6)	(152,723.5)
Gross profit	28,554.1	22,191.9
Selling and marketing expenses	(10,378.1)	(7,993.1)
Administrative expenses	(3,103.9)	(12,099.1)
Research and development expenses	(7,492.6)	(5,776.8)
Fair value changes on investments measured at fair value through profit or loss	3,813.0	4,430.4
Share of losses of investments accounted for using the equity method	(671.8)	(614.9)
Other income	1,265.9	844.8
Other (losses)/gains, net	(226.4)	213.3
Operating profit	11,760.2	1,196.5
Finance income, net	402.4	216.3
Fair value changes of convertible redeemable preferred shares	—	12,514.3
Profit before income tax	12,162.6	13,927.1
Income tax expenses	(2,059.7)	(449.4)
Profit for the year	10,102.9	13,477.7
Non-IFRS Measure: Adjusted net profit	11,532.3	8,554.5

Revenue

Revenue increased by 17.7% to RMB205.8 billion for the Reporting Period, compared to RMB174.9 billion for the year ended December 31, 2018. The following table sets forth our revenue by line of business for the Reporting Period and the year ended December 31, 2018:

	Year ended December 31,		2018	
	2019		2018	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	122,094.9	59.3%	113,800.4	65.1%
IoT and lifestyle products	62,088.0	30.2%	43,816.9	25.1%
Internet services	19,841.6	9.6%	15,955.6	9.1%
Others	1,814.2	0.9%	1,342.5	0.7%
Total revenue	<u>205,838.7</u>	<u>100.0%</u>	<u>174,915.4</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 7.3% from RMB113.8 billion for the year ended December 31, 2018 to RMB122.1 billion for the Reporting Period, driven by growth in both sales volume and ASP. We sold approximately 124.6 million smartphone units for the Reporting Period, compared to approximately 118.7 million units for the year ended December 31, 2018. The ASP of our smartphones was RMB979.9 per unit for the Reporting Period, compared with RMB959.1 per unit for the year ended December 31, 2018. The increase in ASP was primarily due to the optimization of our product portfolio, shifting to higher ASP models in mainland China and some of overseas markets.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 41.7% from RMB43.8 billion for the year ended December 31, 2018 to RMB62.1 billion for the Reporting Period, primarily due to the strong growth in demand of our smart TVs, home appliances and other IoT products such as *Mi Band*, *Mi Electric Scooter* and *Mi Air Purifier*. Revenue from smart TVs and laptops increased by 33.1% from RMB18.2 billion for the year ended December 31, 2018 to RMB24.2 billion for the Reporting Period.

Internet services

Revenue from our internet services segment increased by 24.4% from RMB16.0 billion for the year ended December 31, 2018 to RMB19.8 billion for the Reporting Period. All of our major internet service businesses experienced solid revenue growth in 2019. Our MIUI MAU increased by 27.9% from 242.1 million in December 2018 to 309.6 million in December 2019.

Others

Other revenue increased by 35.1% from RMB1,342.5 million for the year ended December 31, 2018 to RMB1,814.2 million for the Reporting Period, primarily due to the increase in revenue from out-of-warranty services as a result of greater hardware sales as well as the increase in revenue from sale of materials.

Cost of Sales

Our cost of sales increased by 16.1% from RMB152.7 billion for the year ended December 31, 2018 to RMB177.3 billion for the Reporting Period. The following table sets forth our cost of sales by line of business for the Reporting Period and the year ended December 31, 2018:

	Year ended December 31,			
	2019		2018	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	113,335.5	55.1%	106,757.1	61.0%
IoT and lifestyle products	55,134.3	26.8%	39,306.1	22.5%
Internet services	6,998.1	3.4%	5,683.9	3.2%
Others	1,816.7	0.8%	976.4	0.6%
Total cost of sales	<u>177,284.6</u>	<u>86.1%</u>	<u>152,723.5</u>	<u>87.3%</u>

Smartphones

Cost of sales related to our smartphones segment increased by 6.2% from RMB106.8 billion for the year ended December 31, 2018 to RMB113.3 billion for the Reporting Period, mainly 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 40.3% from RMB39.3 billion for the year ended December 31, 2018 to RMB55.1 billion for the Reporting Period, primarily due to the increased sales of our smart TVs and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 23.1% from RMB5.7 billion for the year ended December 31, 2018 to RMB7.0 billion for the Reporting Period, primarily due to the increase in sales of advertising and other internet value-added services.

Others

Cost of sales in our others segment increased by 86.1% from RMB976.4 million for the year ended December 31, 2018 to RMB1,816.7 million for the Reporting Period, primarily due to the increased costs of providing out-of-warranty services and the increased costs from sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 28.7% from RMB22.2 billion for the year ended December 31, 2018 to RMB28.6 billion for the Reporting Period. The gross profit margin from our smartphones segment increased from 6.2% for the year ended December 31, 2018 to 7.2% for the Reporting Period. The increase in gross profit margin mainly reflected the improvement of our product mix and more prudent operations during the early transition period from 4G to 5G technology in mainland China.

The gross profit margin from our IoT and lifestyle products segment increased from 10.3% for the year ended December 31, 2018 to 11.2% for the Reporting Period, mainly due to the increased gross profit margin from our smart TVs and laptops businesses. The gross profit margin from our internet services segment was 64.7% for the Reporting Period, compared with 64.4% for the year ended December 31, 2018. As a result of the foregoing, our gross margin increased from 12.7% for the year ended December 31, 2018 to 13.9% for the Reporting Period.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 29.8% from RMB8.0 billion for the year ended December 31, 2018 to RMB10.4 billion for the Reporting Period, primarily due to increases in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased 34.9% from RMB2.5 billion for the year ended December 31, 2018 to RMB3.4 billion for the Reporting Period, primarily due to our elevated overseas marketing efforts during the Reporting Period. Packaging and transportation expenses increased by 36.7% from RMB1.9 billion for the year ended December 31, 2018 to RMB2.6 billion for the Reporting Period, primarily due to the strong growth in our overseas business.

Administrative Expenses

Our administrative expenses decreased by 74.3% from RMB12.1 billion for the year ended December 31, 2018 to RMB3.1 billion for the Reporting Period, as the Company recognized a one-off share-based compensation expense in 2018. Excluding the one-off share-based compensation, our administrative expenses increased from RMB2.2 billion for the year ended December 31, 2018 to RMB3.1 billion for the Reporting Period, primarily due to the increase of administrative personnel as a result of the increased headcount to accommodate our business growth.

Research and Development Expenses

Our research and development expenses increased by 29.7% from RMB5.8 billion for the year ended December 31, 2018 to RMB7.5 billion for the Reporting Period, primarily due to the increase in compensation expenses relating to our research and development personnel and the expansion of our development projects.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 13.9% from a gain of RMB4.4 billion for the year ended December 31, 2018 to a gain of RMB3.8 billion for the Reporting Period, primarily due to changes in fair value of our equity and preferred share investments for the Reporting Period.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method increased by 9.3% from RMB614.9 million for the year ended December 31, 2018 to RMB671.8 million for the Reporting Period, primarily due to the increase in share of loss of RMB733.2 million of iQIYI, Inc (Nasdaq: IQ), partially offset by the increase in share of gains of other investments.

Other Income

Our other income increased by 49.9% from RMB844.8 million for the year ended December 31, 2018 to RMB1,265.9 million for the Reporting Period, primarily due to increase in dividend income received from our investee companies.

Other (Losses)/Gains, Net

Our other net (losses)/gains decreased by 206.2% from net gains of RMB213.3 million for the year ended December 31, 2018 to net losses of RMB226.4 million in the Reporting Period. This is due to the costs resulting from our financial guarantee.

Finance Income, Net

Our net finance income increased by 86.0% from RMB216.3 million for the year ended December 31, 2018 to RMB402.4 million for the Reporting Period, primarily due to the increase in our interest income.

Fair Value Changes of Convertible Redeemable Preferred Shares

Changes in the fair value of our convertible redeemable preferred shares were recorded as fair value changes of convertible redeemable preferred shares. We did not incur fair value changes of convertible redeemable preferred shares for the Reporting Period, compared to a gain of RMB12.5 billion for the year ended December 31, 2018. After the completion of the Global Offering (as defined in the prospectus of the Company dated June 25, 2018 (the “**Prospectus**”), all of our convertible redeemable preferred shares were automatically converted to our Class B ordinary shares (the “**Class B Shares**”) and thus we no longer incurred fair value changes of convertible redeemable preferred shares after the fourth quarter of 2018.

Income Tax Expenses

Our income tax expenses increased from an income tax expense of RMB0.4 billion for the year ended December 31, 2018 to an income tax expense of RMB2.1 billion for the Reporting Period, primarily due to 1) an increase of profit in mainland China for the Reporting Period compared to the year ended December 31, 2018 and 2) the decrease of deferred tax assets.

Profit for the Year

As a result of the foregoing, we had a profit of RMB10.1 billion for the Reporting Period, compared with a profit of RMB13.5 billion for the year ended December 31, 2018.

Fourth Quarter of 2019 Compared to Fourth Quarter of 2018

The following table sets forth the comparative figures for the fourth quarter of 2019 and the fourth quarter of 2018:

	Unaudited	
	Three months ended	
	December 31,	December 31,
	2019	2018
	(RMB in millions)	
Revenue	56,469.7	44,421.4
Cost of sales	(48,626.4)	(38,760.2)
Gross profit	7,843.3	5,661.2
Selling and marketing expenses	(3,701.1)	(2,327.8)
Administrative expenses	(904.6)	(593.6)
Research and development expenses	(2,252.7)	(1,775.0)
Fair value changes on investments measured at fair value through profit or loss	1,818.4	2,075.3
Share of losses of investments accounted for using the equity method	(273.8)	(318.3)
Other income	350.9	220.2
Other (losses)/gains, net	(183.3)	271.3
Operating profit	2,697.1	3,213.3
Finance income, net	19.2	130.8
Profit before income tax	2,716.3	3,344.1
Income tax (expenses)/income	(280.1)	47.9
Profit for the period	2,436.2	3,392.0
Non-IFRS Measure: Adjusted net profit	2,344.4	1,853.2

Revenue

Revenue increased by 27.1% to RMB56.5 billion in the fourth quarter of 2019 on a year-over-year basis. The following table sets forth our revenue by line of business in the fourth quarter of 2019 and the fourth quarter of 2018:

	Unaudited			
	Three months ended		December 31, 2018	
	December 31, 2019		December 31, 2018	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	30,796.8	54.5%	25,077.3	56.5%
IoT and lifestyle products	19,494.0	34.5%	14,936.7	33.6%
Internet services	5,695.1	10.1%	4,037.3	9.1%
Others	483.8	0.9%	370.1	0.8%
Total revenue	<u>56,469.7</u>	<u>100.0%</u>	<u>44,421.4</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 22.8% from RMB25.1 billion in the fourth quarter of 2018 to RMB30.8 billion for the fourth quarter of 2019. We sold 32.6 million smartphone units in the fourth quarter of 2019, compared to 25.0 million units in the fourth quarter of 2018. The ASP of our smartphones was RMB945.1 per unit in the fourth quarter of 2019, compared with RMB1,004.7 per unit in the fourth quarter of 2018. The decrease in ASP was primarily due to a different product mix in overseas markets compared to the fourth quarter of 2018.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 30.5% from RMB14.9 billion in the fourth quarter of 2018 to RMB19.5 billion in the fourth quarter of 2019. The increase in revenue was primarily due to the strong growth in demand of smart TVs, home appliances and other IoT products such as *Mi Band*. Revenue from smart TVs and laptops increased by 20.5% from RMB6.6 billion in the fourth quarter of 2018 to RMB7.9 billion in the fourth quarter of 2019.

Internet services

Revenue from our internet services segment increased by 41.1% from RMB4.0 billion in the fourth quarter of 2018 to RMB5.7 billion in the fourth quarter of 2019, as all of major internet service businesses posted solid growth. Our MIUI MAU was 309.6 million in December 2019, an increase of 27.9% from 242.1 million in December 2018.

Others

Other revenue increased by 30.7% from RMB370.1 million in the fourth quarter of 2018 to RMB483.8 million in the fourth quarter of 2019, primarily due to the increase in revenue from sale of materials.

Cost of Sales

Our cost of sales increased by 25.5% from RMB38.8 billion in the fourth quarter of 2018 to RMB48.6 billion in the fourth quarter of 2019. The following table sets forth our cost of sales by line of business in the fourth quarter of 2019 and the fourth quarter of 2018:

	Unaudited			
	Three months ended			
	December 31, 2019		December 31, 2018	
	% of total		% of total	
	Amount	revenue	Amount	revenue
	(RMB in millions, unless specified)			
Smartphones	28,405.3	50.3%	23,557.5	53.0%
IoT and lifestyle products	17,659.2	31.3%	13,358.9	30.1%
Internet services	2,068.4	3.7%	1,496.5	3.4%
Others	493.5	0.8%	347.3	0.8%
Total cost of sales	<u>48,626.4</u>	<u>86.1%</u>	<u>38,760.2</u>	<u>87.3%</u>

Smartphones

Cost of sales related to our smartphones segment increased by 20.6% from RMB23.6 billion in the fourth quarter of 2018 to RMB28.4 billion in the fourth quarter of 2019, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 32.2% from RMB13.4 billion in the fourth quarter of 2018 to RMB17.7 billion in the fourth quarter of 2019, primarily due to the increased sales of our smart TVs, home appliances and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 38.2% from RMB1.5 billion in the fourth quarter of 2018 to RMB2.1 billion in the fourth quarter of 2019, primarily due to the increased sales of all our major internet services businesses.

Others

Cost of sales related to our others segment increased by 42.1% from RMB347.3 million in the fourth quarter of 2018 to RMB493.5 million in the fourth quarter of 2019, primarily due to the increased costs from sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 38.5% from RMB5.7 billion in the fourth quarter of 2018 to RMB7.8 billion in the fourth quarter of 2019. The gross profit margin from our smartphones segment increased from 6.1% in the fourth quarter of 2018 to 7.8% in the fourth quarter of 2019. The increase in gross profit margin is mainly due to the popularity of our newly launched smartphone models and more prudent operations during the early transition period from 4G to 5G technology in mainland China.

The gross profit margin from our IoT and lifestyle products segment decreased from 10.6% in the fourth quarter of 2018 to 9.4% in the fourth quarter of 2019, 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 increased from 62.9% in the fourth quarter of 2018 to 63.7% in the fourth quarter of 2019, mainly due to the improvement of gross profit margin from our value added services.

As a result of the foregoing, our gross profit margin increased from 12.7% in the fourth quarter of 2018 to 13.9% in the fourth quarter of 2019.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 59.0% from RMB2.3 billion in the fourth quarter of 2018 to RMB3.7 billion in the fourth quarter of 2019, primarily due to the increase in promotion and advertising expenses and packaging and transportation expenses. Promotion and advertising expenses increased 148.8% from RMB613.9 million in the fourth quarter of 2018 to RMB1,527.5 million in the fourth quarter of 2019, primarily due to our elevated marketing efforts to increase brand awareness in overseas markets in the fourth quarter of 2019.

Administrative Expenses

Our administrative expenses increased by 52.4% from RMB593.6 million in the fourth quarter of 2018 to RMB904.6 million in the fourth quarter of 2019, primarily due to the increase in compensation costs for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 26.9% from RMB1.8 billion in the fourth quarter of 2018 to RMB2.3 billion in the fourth quarter of 2019, 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 12.4% from a gain of RMB2.1 billion in the fourth quarter of 2018 to a gain of RMB1.8 billion in the fourth quarter of 2019, primarily due to less fair value gains of equity and preferred share investments in the fourth quarter of 2019.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method decreased by 14.0% from net losses of RMB318.3 million in the fourth quarter of 2018 to net losses of RMB273.8 million in the fourth quarter of 2019, primarily due to the decrease in share of loss of RMB181.0 million of iQIYI, Inc (Nasdaq: IQ) in the fourth quarter of 2019.

Other Income

Our other income increased by 59.4% from RMB220.2 million in the fourth quarter of 2018 to RMB350.9 million in the fourth quarter of 2019, primarily due to the increase in dividend income received from our investee companies.

Other (Losses)/Gains, Net

Our other net (losses)/gains changed from net gains of RMB271.3 million in the fourth quarter of 2018 to net losses of RMB183.3 million in the fourth quarter of 2019. This is due to the costs resulting from our financial guarantee. We also recognized foreign exchange gains for the fourth quarter of 2018, compared to foreign exchange losses for the fourth quarter of 2019.

Finance Income, Net

Our net finance income decreased by 85.3% from RMB130.8 million in the fourth quarter of 2018 to RMB19.2 million in the fourth quarter of 2019, primarily due to increase of interest expense from financial liability measured at amortized cost.

Income Tax (Expenses)/Income

Our income tax (expenses)/income changed from an income tax income of RMB47.9 million in the fourth quarter of 2018 to an income tax expense of RMB280.1 million in the fourth quarter of 2019, primarily due to the reversal of over accrued income tax expense as a subsidiary became qualified as a “Key Software Enterprise” which enjoys a preferential income tax rate of 10% during the fourth quarter of 2018.

Profit for the Year

As a result of the foregoing, we had a profit of RMB2.4 billion in the fourth quarter of 2019, compared with a profit of RMB3.4 billion in the fourth quarter of 2018.

Fourth Quarter of 2019 Compared to Third Quarter of 2019

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

	Unaudited	
	Three months ended	
	December 31,	September 30,
	2019	2019
	(RMB in millions)	
Revenue	56,469.7	53,661.0
Cost of sales	(48,626.4)	(45,424.6)
Gross profit	7,843.3	8,236.4
Selling and marketing expenses	(3,701.1)	(2,537.0)
Administrative expenses	(904.6)	(843.8)
Research and development expenses	(2,252.7)	(2,033.1)
Fair value changes on investments measured at fair value through profit or loss	1,818.4	32.5
Share of losses of investments accounted for using the equity method	(273.8)	(240.6)
Other income	350.9	448.4
Other (losses)/gains, net	(183.3)	49.9
Operating profit	2,697.1	3,112.7
Finance income, net	19.2	182.1
Profit before income tax	2,716.3	3,294.8
Income tax expenses	(280.1)	(775.4)
Profit for the period	2,436.2	2,519.4
Non-IFRS Measure: Adjusted net profit	2,344.4	3,472.1

Revenue

Revenue increased by 5.2% to RMB56.5 billion in the fourth quarter of 2019 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the fourth quarter of 2019 and the third quarter of 2019:

	Unaudited			
	December 31, 2019		September 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
Smartphones	30,796.8	54.5%	32,268.4	60.1%
IoT and lifestyle products	19,494.0	34.5%	15,606.3	29.1%
Internet services	5,695.1	10.1%	5,309.0	9.9%
Others	483.8	0.9%	477.3	0.9%
Total revenue	<u>56,469.7</u>	<u>100.0%</u>	<u>53,661.0</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 4.6% from RMB32.3 billion in the third quarter of 2019 to RMB30.8 billion in the fourth quarter of 2019. We continued to operate prudently during the transition period from 4G to 5G technology in mainland China, maintain healthy cash flows and inventory levels, focus on technological development, in order to strengthen our capabilities to capture the upcoming opportunities upon the widespread adoption of 5G technology. We sold 32.6 million units of smartphones in the fourth quarter of 2019, compared to 32.1 million units in the third quarter of 2019. The ASP of our smartphones was RMB945.1 per unit in the fourth quarter of 2019, compared with RMB1,006.5 per unit in the third quarter of 2019. In the fourth quarter of 2019, we conducted seasonal promotional activities in mainland China and overseas market, which led to lower ASP compared to the prior quarter.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 24.9% from RMB15.6 billion in the third quarter of 2019 to RMB19.5 billion in the fourth quarter of 2019, primarily due to the growth in demand of our smart TVs, laptops and other IoT products such as *Mi Air Purifier*. Revenue from smart TVs and laptops increased by 37.0% from RMB5.8 billion in the third quarter of 2019 to RMB7.9 billion in the fourth quarter of 2019.

Internet services

Revenue from our internet services segment increased by 7.3% from RMB5.3 billion in the third quarter of 2019 to RMB5.7 billion in the fourth quarter of 2019, primarily due to the growth in our advertising and other internet value-added services.

Others

Other revenue increased by 1.4% from RMB477.3 million in the third quarter of 2019 to RMB483.8 million in the fourth quarter of 2019.

Cost of Sales

Our cost of sales increased by 7.0% from RMB45.4 billion in the third quarter of 2019 to RMB48.6 billion in the fourth quarter of 2019.

	Unaudited			
	Three months ended			
	December 31, 2019		September 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	28,405.3	50.3%	29,375.2	54.7%
IoT and lifestyle products	17,659.2	31.3%	13,608.0	25.4%
Internet services	2,068.4	3.7%	1,967.3	3.7%
Others	493.5	0.8%	474.1	0.9%
Total cost of sales	<u>48,626.4</u>	<u>86.1%</u>	<u>45,424.6</u>	<u>84.7%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 3.3% from RMB29.4 billion in the third quarter of 2019 to RMB28.4 billion in the fourth quarter of 2019, primarily due to the decreased sales of our smartphones.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 29.8% from RMB13.6 billion in the third quarter of 2019 to RMB17.7 billion in the fourth quarter of 2019, primarily due to the increased sales of our smart TVs, laptops and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 5.1% from RMB2.0 billion in the third quarter of 2019 to RMB2.1 billion in the fourth quarter of 2019, primarily due to the growth of our other internet value-added services.

Others

Cost of sales related to our others segment increased by 4.1% from RMB474.1 million in the third quarter of 2019 to RMB493.5 million in the fourth quarter of 2019.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 4.8% from RMB8.2 billion in the third quarter of 2019 to RMB7.8 billion in the fourth quarter of 2019. The gross profit margin from our smartphones segment decreased from 9.0% in the third quarter of 2019 to 7.8% in the fourth quarter of 2019, mainly due to the seasonal sales activities conducted in the fourth quarter of 2019.

The gross profit margin from our IoT and lifestyle products segment decreased from 12.8% in the third quarter of 2019 to 9.4% in the fourth quarter of 2019, primarily due to the seasonal promotional activities conducted in the fourth quarter of 2019. The gross profit margin from our internet services segment increased slightly from 62.9% in the third quarter of 2019 to 63.7% in the fourth quarter of 2019, mainly because of the increase of gross profit margin from our advertising and fintech business.

As a result of the foregoing, our gross profit margin decreased from 15.3% in the third quarter of 2019 to 13.9% for the fourth quarter of 2019.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 45.9% from RMB2.5 billion in the third quarter of 2019 to RMB3.7 billion in the fourth quarter of 2019, primarily due to the increase in promotion and advertising expenses and packaging and transportation expenses. The promotion and advertising expenses increased 79.7% from RMB849.9 million in the third quarter of 2019 to RMB1,527.5 million in the fourth quarter of 2019, primarily due to our elevated marketing campaigns to improve our brand awareness in overseas markets.

Administrative Expenses

Our administrative expenses increased by 7.2% from RMB843.8 million in the third quarter of 2019 to RMB904.6 million in the fourth quarter of 2019, primarily due to the increase of administrative personnel in the fourth quarter of 2019.

Research and Development Expenses

Our research and development expenses increased by 10.8% from RMB2.0 billion in the third quarter of 2019 to RMB2.3 billion in the fourth quarter of 2019, primarily due to the increase of compensation of research and development personnel in the fourth quarter of 2019.

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

Our fair value changes on investments measured at fair value through profit or loss increased from a gain of RMB32.5 million in the third quarter of 2019 to a gain of RMB1,818.4 million in the fourth quarter of 2019, primarily due to fair value gains of the equity and preferred share investments in the fourth quarter of 2019.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method increased by 13.8% from net losses of RMB240.6 million in the third quarter of 2019 to net losses of RMB273.8 million in the fourth quarter of 2019.

Other Income

Our other income decreased by 21.7% from RMB448.4 million in the third quarter of 2019 to RMB350.9 million in the fourth quarter of 2019, primarily due to the decrease in 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 RMB183.3 million in the fourth quarter of 2019. This is due to the costs resulting from our financial guarantee. We also recognized foreign exchange gains for the third quarter of 2019, compared to foreign exchange losses for the fourth quarter of 2019.

Finance Income, Net

Our net finance income decreased by 89.5% from RMB182.1 million in the third quarter of 2019 to RMB19.2 million in the fourth quarter of 2019, primarily due to the increase of interest expense from financial liability measured at amortized cost.

Income Tax Expenses

Our income tax expenses decreased from RMB775.4 million for the third quarter of 2019 to RMB280.1 million in the fourth quarter of 2019, primarily due to the utilization of deferred tax assets as a result of the growth of our overseas business in the third quarter of 2019.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.5 billion and a profit of RMB2.4 billion for the third and fourth quarter of 2019, respectively.

Non-IFRS Measure: Adjusted Net Profit

To supplement our consolidated results which are prepared and presented in accordance with International Financial Reporting Standards (the “**IFRS**”), we utilize 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) fair value changes of convertible redeemable preferred shares, (ii) share-based compensation, (iii) net fair value changes on investments, (iv) amortization of intangible assets resulting from acquisitions, (v) changes of value of financial liabilities to fund investors, and (vi) income tax effects.

Adjusted Net Profit is not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of 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 fourth quarter of 2019, the third quarter of 2019, the fourth quarter of 2018 and the years ended December 31, 2019 and 2018 to the nearest measures prepared in accordance with IFRS.

In the fourth quarter of 2019, the net fair value changes on investments of negative RMB959.9 million in the non-IFRS adjustments include the pre-tax net gains on disposal of investments of RMB858.5 million (RMB869.0 million post-tax), and are partially offset by fair value gains on investments measured at fair value through profit or loss of RMB1,818.4 million (before tax).

Unaudited
Three Months Ended December 31, 2019

	As reported	Adjustments					Income tax effects ⁽⁴⁾	Non-IFRS
		Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(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%

Unaudited
Three Months Ended September 30, 2019

	As reported	Adjustments					Income tax effects ⁽⁴⁾	Non-IFRS
		Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)								
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
Three Months Ended December 31, 2018

	As reported	Adjustments					Income tax effects ⁽⁴⁾	Non-IFRS
		Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)								
Profit for the period	3,392,027	—	663,297	(2,208,472)	1,760	42,504	(37,912)	1,853,204
Net margin	7.6%							4.2%

Year Ended December 31, 2019

	As reported	Adjustments					Income tax effects ⁽⁴⁾	Non-IFRS
		Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)								
Profit for the year	10,102,950	—	2,201,722	(888,284)	1,704	250,706	(136,502)	11,532,296
Net margin	4.9%							5.6%

Year Ended December 31, 2018

	As reported	Adjustments					Income tax effects ⁽⁴⁾	Non-IFRS
		Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾		
(RMB in thousand, unless specified)								
Profit for the year	13,477,747	(12,514,279)	12,380,668	(4,524,425)	6,207	42,504	(313,874)	8,554,548
Net margin	7.7%							4.9%

Notes:

- (1) Includes fair value changes on equity investments and preferred shares investments deducting the cumulative fair value changes for investments (including the financial assets measured at fair value through profit or loss (“FAFVPL”) and the investments using the equity method transferred from FAFVPL) disposed in the current period, the impairment provision for investments, re-measurement of loss of significant influence in an associate, re-measurement of investments transferring from FAFVPL to investments using the equity method, but excludes the equity pick up of share of (losses)/gains of investments accounted for 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.

Hardware Business Net Margin

HB overall net profit margin rate¹ = HB overall net profit/Revenue from HB

HB overall profit before tax = Revenue from HB – Cost of sales of HB – Selling and marketing expenses of HB – Administrative expenses of HB – Research and development expenses of HB

HB overall net profit = HB overall profit before tax – Income tax expenses of HB

Share-based compensation expenses are excluded from selling and marketing expenses of HB, administrative expenses of HB, research and development expenses of HB. Income tax expenses of HB equals to the HB overall profit before tax multiplied by the effective tax rate of the Group.

Note:

The source data and calculation formulae of HB overall net profit margin rate are provided by the Group. PricewaterhouseCoopers Zhong Tian LLP was engaged by the Group to conduct certain procedures, as mutually agreed by both parties, including agreeing the source data used to the books and records and recalculating the HB overall net profit margin rate based on the formulae provided by the Group.

Liquidity, Financial Resources and Gearing

Other than the funds raised through our Global Offering in July 2018, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB25.9 billion and RMB35.5 billion as of December 31, 2019 and September 30, 2019, respectively.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss and long-term bank deposits. As of December 31, 2019, the aggregate amount of cash resources of the Group was RMB66.0 billion.

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	December 31, 2019	September 30, 2019
	(in thousands of RMB)	
Net cash generated from operating activities ⁽¹⁾	9,902,353	2,992,577
Net cash used in investing activities	(19,801,274)	(3,738,308)
Net cash generated from financing activities ⁽¹⁾	544,270	684,969
	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents	(9,354,651)	(60,762)
	<u> </u>	<u> </u>
Cash and cash equivalents at beginning of period	35,539,164	34,921,028
Effects of exchange rate changes on cash and cash equivalents	(264,652)	678,898
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	<u>25,919,861</u>	<u>35,539,164</u>

Note:

- (1) Excluding (1) the increase in loan and interest receivables and impairment provision for loan receivables mainly resulting from the internet finance business; (2) the increase in trade payables resulting from the finance factoring business; and (3) the decrease in restricted cash resulting from the internet finance business, the net cash generated from operating activities was RMB11.3 billion in the fourth quarter of 2019 and RMB3.6 billion in the third quarter of 2019, respectively. Excluding the change of borrowings for the internet finance business, the net cash generated from financing activities was RMB271.5 million in the fourth quarter of 2019 and the net cash used in financing activities was RMB19.2 million in the third quarter of 2019, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Generated From Operating Activities

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

In the fourth quarter of 2019, net cash generated from our operating activities amounted to RMB9.9 billion, representing cash generated from operations of RMB10.5 billion minus income tax paid of RMB0.6 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB2.7 billion, adjusted by an increase in trade payables of RMB9.3 billion, a decrease in trade receivables of RMB3.6 billion and an increase in advance from customers of RMB1.7 billion, partially offset by an increase in inventories of RMB7.1 billion.

Net Cash Used In Investing Activities

For the fourth quarter of 2019, our net cash used in investing activities was RMB19.8 billion, which was primarily attributed to the net changes of short-term bank deposits of RMB17.2 billion and the net changes of short-term investments measured at fair value through profit or loss of RMB1.8 billion.

Net Cash Generated From Financing Activities

For the fourth quarter of 2019, our net cash generated from financing activities was RMB0.5 billion, which was primarily attributed to the net changes of borrowings of RMB2.1 billion, partially offset by the payments for share repurchase of RMB1.1 billion and net proceeds from exercise of share options of RMB0.3 billion.

Borrowings

As of September 30, 2019 and December 31, 2019, we had total borrowings of RMB15.5 billion and RMB17.6 billion, respectively.

Capital Expenditure

	Three months ended	
	December 31, 2019	September 30, 2019
	(in thousands of RMB)	
Capital expenditures	1,076,415	843,968
Placement of long-term investments ⁽¹⁾	1,207,067	380,659
Total	<u>2,283,482</u>	<u>1,224,627</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. As of December 31, 2019, our book value of office and other real estate amounted RMB11.3 billion.

Off-Balance Sheet Commitments and Arrangements

As of December 31, 2019, except for financial guarantee contracts, we had not entered into any off-balance sheet arrangements.

Future Plans for Material Investments and Capital Assets

As of December 31, 2019, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

For the year ended December 31, 2019, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of December 31, 2019, we had 18,170 full-time employees, 16,783 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 December 31, 2019, our research and development personnel, totaling 8,874 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 December 31, 2019, 15,945 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the Reporting Period were RMB8,304.9 million, representing a decrease of 51.5% from the year ended December 31, 2018 of RMB17,114.9 million, primarily due to an one-off share-based compensation event in the second quarter of 2018.

Foreign Exchange Risk

The transactions of our Company are denominated and settled in our functional currency, the United States dollar. Our Group's subsidiaries primarily operate in the People's Republic of China (the "PRC") and other regions such as India, and are exposed to foreign exchange risk arising from various currencies exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in our subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners.

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

Pledge of Assets

As of December 31, 2019, we pledged a restricted deposit of RMB1,538.3 million, compared with RMB1,526.9 million as of September 30, 2019.

Contingent Liabilities

As of December 31, 2019, we did not have any material contingent liabilities, compared with nil as of September 30, 2019.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2019

(Expressed in Renminbi (“RMB”))

	Note	Year ended December 31,	
		2019	2018
		RMB'000	RMB'000
Revenue	2	205,838,682	174,915,425
Cost of sales	3	(177,284,649)	(152,723,486)
Gross profit		28,554,033	22,191,939
Selling and marketing expenses	3	(10,378,073)	(7,993,072)
Administrative expenses	3	(3,103,901)	(12,099,078)
Research and development expenses	3	(7,492,554)	(5,776,826)
Fair value changes on investments measured at fair value through profit or loss	7	3,813,012	4,430,359
Share of losses of investments accounted for using the equity method	4	(671,822)	(614,920)
Other income		1,265,921	844,789
Other (losses)/gains, net		(226,399)	213,281
Operating profit		11,760,217	1,196,472
Finance income, net		402,429	216,373
Fair value changes of convertible redeemable preferred shares		—	12,514,279
Profit before income tax		12,162,646	13,927,124
Income tax expenses	5	(2,059,696)	(449,377)
Profit for the year		10,102,950	13,477,747
Attributable to:			
— Owners of the Company		10,044,164	13,553,886
— Non-controlling interests		58,786	(76,139)
		10,102,950	13,477,747
Earnings per share (expressed in RMB per share):	6		
Basic		0.423	0.843
Diluted		0.410	0.044

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

(Expressed in RMB)

	Note	Year ended December 31,	
		2019	2018
		RMB'000	RMB'000
Profit for the year		10,102,950	13,477,747
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	4	9,279	191,449
Currency translation differences		(77,430)	(648,746)
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences		508,584	(1,098,818)
Other comprehensive income/(loss) for the year, net of tax		440,433	(1,556,115)
Total comprehensive income for the year		10,543,383	11,921,632
Attributable to:			
— Owners of the Company		10,472,914	11,989,243
— Non-controlling interests		70,469	(67,611)
		10,543,383	11,921,632

CONSOLIDATED BALANCE SHEET

As of December 31, 2019

(Expressed in RMB)

	Note	As of December 31,	
		2019	2018
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights		—	3,402,968
Property and equipment		6,992,331	5,068,053
Intangible assets		1,672,002	2,061,192
Investments accounted for using the equity method	4	9,300,507	8,639,238
Long-term investments measured at fair value through profit or loss	7	20,679,363	18,636,208
Deferred income tax assets		1,283,415	1,312,245
Other non-current assets	8	6,162,503	95,485
		<u>46,090,121</u>	<u>39,215,389</u>
Current assets			
Inventories	10	32,585,438	29,480,685
Trade receivables	9	6,948,567	5,598,443
Loan receivables		12,723,503	10,293,645
Prepayments and other receivables		19,837,018	20,914,946
Short-term investments measured at fair value through profit or loss	7	16,463,390	6,648,526
Short-term bank deposits		21,523,043	1,365,991
Restricted cash		1,538,266	1,480,178
Cash and cash equivalents		25,919,861	30,230,147
		<u>137,539,086</u>	<u>106,012,561</u>
Total assets		<u><u>183,629,207</u></u>	<u><u>145,227,950</u></u>

	Note	As of December 31,	
		2019	2018
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		388	377
Reserves		<u>81,330,186</u>	<u>71,322,608</u>
		<u>81,330,574</u>	<u>71,322,985</u>
Non-controlling interests		<u>327,102</u>	<u>(72,856)</u>
Total equity		<u><u>81,657,676</u></u>	<u><u>71,250,129</u></u>
Liabilities			
Non-current liabilities			
Borrowings	12	4,786,856	7,856,143
Deferred income tax liabilities		579,902	777,645
Warranty provision		667,857	559,016
Other non-current liabilities		<u>3,756,211</u>	<u>2,844,859</u>
		<u>9,790,826</u>	<u>12,037,663</u>
Current liabilities			
Trade payables	11	59,527,940	46,287,271
Other payables and accruals		9,101,343	6,312,770
Advance from customers		8,237,119	4,479,522
Borrowings	12	12,836,555	3,075,194
Income tax liabilities		479,350	661,816
Warranty provision		<u>1,998,398</u>	<u>1,123,585</u>
		<u>92,180,705</u>	<u>61,940,158</u>
Total liabilities		<u><u>101,971,531</u></u>	<u><u>73,977,821</u></u>
Total equity and liabilities		<u><u>183,629,207</u></u>	<u><u>145,227,950</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(Expressed in RMB)

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	23,810,354	(1,414,571)
Net cash used in investing activities	(31,570,136)	(7,508,040)
Net cash generated from financing activities	3,121,238	26,574,172
Net (decrease)/increase in cash and cash equivalents	(4,638,544)	17,651,561
Cash and cash equivalents at the beginning of the year	30,230,147	11,563,282
Effects of exchange rate changes on cash and cash equivalents	328,258	1,015,304
Cash and cash equivalents at the end of the year	25,919,861	30,230,147

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”) and disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

(a) *New and amended standards adopted by the Group*

The following new and amended standards, and annual improvements are mandatory for the first time for the Group’s financial year beginning on January 1, 2019 and are applicable for the Group:

- IFRS 16 Leases (“IFRS 16”)
- IFRIC 23 Uncertainty over income tax treatments
- Amendments to IAS 19 Employee benefits on plan amendment, curtailment or settlement
- Amendments to IFRS Annual Improvements to IFRSs Standards 2015–2017 Cycle
- Amendments to IAS 28 Long-term interests in associates and joint ventures
- Amendment to IFRS 9 Prepayment features with negative compensation

The adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group other than IFRS 16.

The Group has adopted IFRS 16 Leases from January 1, 2019. The Group has applied IFRS 16 using the simplified transition approach and has not restated comparatives for the 2018 reporting period as permitted under the specific transition provisions in the standard.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of January 1, 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 5.16% per annum.

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet immediately before the adoption of the IFRS 16. As a result of the adoption of IFRS 16, as of January 1, 2019, the Group recognized a right-of-use asset of RMB4,281,939,000 in other non-current assets, and lease liabilities of RMB285,402,000 and RMB573,431,000 in other payables and accruals and other non-current liabilities, respectively. The impact on transition also included a decrease of RMB52,987,000 in prepayments and other receivables, a decrease of RMB3,389,731,000 in land use rights and a decrease of RMB19,612,000 in other payables and accruals as a result of the adjustment of prepaid or accrued lease payments. On adoption of IFRS 16, the Group reclassified the land use rights to right-of-use assets, which represent the prepaid operating lease payments.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Segment information

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

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

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

The segment results for the years ended December 31, 2019 and 2018 are as follows:

	Year ended December 31, 2019				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	122,094,897	62,087,998	19,841,569	1,814,218	205,838,682
Cost of sales	(113,335,546)	(55,134,299)	(6,998,096)	(1,816,708)	(177,284,649)
Gross profit/(loss)	8,759,351	6,953,699	12,843,473	(2,490)	28,554,033

	Year ended December 31, 2018				Total RMB'000
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	
Segment revenues	113,800,386	43,816,885	15,955,558	1,342,596	174,915,425
Cost of sales	(106,757,127)	(39,306,134)	(5,683,856)	(976,369)	(152,723,486)
Gross profit	7,043,259	4,510,751	10,271,702	366,227	22,191,939

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the years ended December 31, 2019 and 2018, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2019		2018	
	RMB'000	%	RMB'000	%
Mainland China	114,608,633	55.7	104,944,803	60.0
Rest of the world (Note(a))	91,230,049	44.3	69,970,622	40.0
	<u>205,838,682</u>		<u>174,915,425</u>	

Note:

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

3 Expenses by nature

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Cost of inventories sold	157,935,754	138,237,733
Provision for impairment of inventories	3,859,675	3,006,525
Royalty fees	5,042,116	4,263,421
Employee benefit expenses	8,304,928	17,114,892
Depreciation of property and equipment, right-of-use assets and investment properties	895,273	219,523
Amortization of intangible assets	485,786	528,693
Promotion and advertising expenses	3,355,201	2,486,350
Content fees to game developers and video providers	1,754,622	1,629,144
Credit loss allowance for loan receivables	1,015,619	607,180
Consultancy and professional service fees	730,312	903,076
Cloud service, bandwidth and server custody fees	1,724,145	1,725,218
Office rental expenses	—	529,497
Warranty expenses	2,641,794	1,068,252
Auditor's remuneration	79,126	51,803

4 Investments accounted for using the equity method

	As of December 31,	
	2019 RMB'000	2018 RMB'000
Investments in associate accounted for using the equity method		
— Listed entities	5,499,386	6,198,681
— Unlisted entities	3,801,121	2,440,557
	<u>9,300,507</u>	<u>8,639,238</u>
	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
At the beginning of the year	8,639,238	1,710,819
Additions	1,197,944	7,289,333
Disposal	(93,596)	(100)
Share of losses	(671,822)	(614,920)
Share of other comprehensive income	9,279	191,449
Share of changes of other reserves	229,740	62,657
Dividends from associates	(10,276)	—
	<u>9,300,507</u>	<u>8,639,238</u>

5 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2019 and 2018 are analyzed as follows:

	Year ended December 31,	
	2019 RMB'000	2018 RMB'000
Current income tax	2,228,609	1,414,602
Deferred income tax	(168,913)	(965,225)
	<u>2,059,696</u>	<u>449,377</u>

6 Earnings per share

On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US\$0.000025 each in the share capital of the Company were subdivided into 10 shares of US\$0.000025 each ("Share Subdivision"). Following the Share Subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended December 31, 2018 has been retrospectively adjusted.

(a) Basic

Basic earnings per share for the years ended December 31, 2019 and 2018 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	10,044,164	13,553,886
Weighted average number of ordinary shares in issue (thousand shares)	23,746,463	16,069,770
Basic earnings per share (expressed in RMB per share)	0.423	0.843

(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.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	10,044,164	13,553,886
Less: fair value gain of Preferred Shares	—	(12,514,279)
Net profit used to determine diluted earnings per share	10,044,164	1,039,607
Weighted average number of ordinary shares in issue (thousand shares)	23,746,463	16,069,770
Adjustments for Preferred Shares (thousand shares)	—	5,468,315
Adjustments for RSUs and share options granted to employees (thousand shares)	762,301	2,024,845
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	24,508,764	23,562,930
Diluted earnings per share (expressed in RMB per share)	0.410	0.044

7 Investments

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Current assets		
Short-term investments measured at fair value through profit or loss	<u>16,463,390</u>	<u>6,648,526</u>
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	7,272,454	7,629,929
— Preferred shares investments	<u>13,406,909</u>	<u>11,006,279</u>
	<u>20,679,363</u>	<u>18,636,208</u>

Amounts recognized in profit or loss

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Fair value changes on equity investments	2,322,349	(1,386,967)
Fair value changes on preferred shares investments	1,452,273	5,793,800
Fair value changes on short-term investments measured at fair value through profit or loss	<u>38,390</u>	<u>23,526</u>
	<u>3,813,012</u>	<u>4,430,359</u>

8 Other non-current assets

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Right-of-use assets	3,833,100	—
Investment properties	1,250,932	—
Long-term bank deposits	590,157	992
Others	<u>488,314</u>	<u>94,493</u>
	<u>6,162,503</u>	<u>95,485</u>

9 Trade receivables

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

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	6,076,873	5,094,390
3 to 6 months	550,929	392,868
6 months to 1 year	308,197	116,279
1 to 2 years	98,643	16,630
Over 2 years	29,706	46,873
	<u>7,064,348</u>	<u>5,667,040</u>
Less: allowance for impairment	(115,781)	(68,597)
	<u><u>6,948,567</u></u>	<u><u>5,598,443</u></u>

10 Inventories

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Raw materials	9,347,930	7,343,118
Finished goods	18,030,136	19,112,105
Work in progress	2,422,504	2,068,834
Spare parts	1,733,042	1,156,825
Others	1,925,785	1,651,854
	<u>33,459,397</u>	<u>31,332,736</u>
Less: provision for impairment	(873,959)	(1,852,051)
	<u><u>32,585,438</u></u>	<u><u>29,480,685</u></u>

11 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2019 and 2018, the carrying amounts of trade payables were primarily denominated in RMB, US\$ and INR.

Trade payables and their aging analysis based on invoice date are as follows:

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Up to 3 months	57,942,872	44,312,748
3 to 6 months	1,136,595	1,656,699
6 months to 1 year	342,864	266,623
1 to 2 years	55,709	50,350
Over 2 years	49,900	851
	<u>59,527,940</u>	<u>46,287,271</u>

12 Borrowings

	As of December 31,	
	2019	2018
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities	2,305,000	2,752,815
Fund raised through trusts	450,000	—
Secured borrowings	1,825,856	1,260,941
Unsecured borrowings	206,000	3,842,387
	<u>4,786,856</u>	<u>7,856,143</u>
Included in current liabilities		
Asset-backed securities	2,647,641	586,282
Fund raised through trusts	420,000	648,390
Secured borrowings	1,796,701	—
Unsecured borrowings	7,972,213	1,840,522
	<u>12,836,555</u>	<u>3,075,194</u>

OTHER INFORMATION

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

During the Reporting Period, the Company repurchased a total of 338,272,800 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\$3,114,211,782. 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\$)	
January	19,972,200	10.20	9.74	199,931,233
June	97,927,800	10.04	8.96	925,210,318
July	7,610,000	10.00	9.70	74,840,553
September	91,253,800	9.38	8.73	824,790,890
October	11,192,400	8.98	8.82	99,992,310
November	44,828,000	9.00	8.79	399,982,282
December	65,488,600	9.09	8.85	589,464,196
Total	<u>338,272,800</u>			<u>3,114,211,782</u>

As at the date of this announcement, the number of Class B Shares in issue was reduced by 338,272,800 as a result of the cancellation of the Shares Repurchased. 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 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 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in January 2019 were subsequently cancelled on February 1, 2019. A total of 5,591,700 Class A Shares were converted into Class B Shares on a one-to-one ratio on February 1, 2019, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 3,587,263 Class A Shares and Mr. Lin Bin, through Bin Lin Trust, converted 2,004,437 Class A Shares. The Shares Repurchased in June 2019 and July 2019 were subsequently cancelled on July 25, 2019. A total of 29,347,128 Class A Shares were converted into Class B Shares on a one-to-one ratio on July 25, 2019, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 18,827,168 Class A Shares and Mr. Lin Bin, through Bin Lin Trust, converted 10,519,960 Class A Shares. The Shares Repurchased in September 2019 and October 2019 were subsequently cancelled on December 2, 2019. A total of 28,301,498 Class A Shares were converted into Class B Shares on a one-to-one ratio on December 2, 2019, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 18,156,361 Class A Shares and Mr. Lin Bin, through Bin Lin Trust, converted 10,145,137 Class A Shares. The Shares Repurchased in November 2019 and December 2019 were subsequently cancelled on January 16, 2020. A total of 30,336,497 Class A Shares were converted into Class B Shares on a one-to-one ratio on January 16, 2020, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 19,461,881 Class A Shares and Mr. Lin Bin, through Bin Lin Trust, converted 10,874,616 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 Reporting Period 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 throughout the Reporting Period.

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

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules the code of conduct regarding the Directors’ dealings in the securities of the Company. Having made specific enquiries of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code during the Reporting Period and up to the date of this announcement.

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 audited consolidated financial statements of the Group for the Reporting Period. 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 Auditor.

Auditor’s Procedures Performed on this Results Announcement

The figures in respect of the Group’s consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and the related notes thereto for the year ended December 31, 2019 as set out in this announcement have been agreed by the Auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Auditor on this announcement.

Material Litigation

The Company was not involved in any material litigation or arbitration during the Reporting Period 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.

Final Dividend

The Board has resolved not to declare any final dividend for the Reporting Period.

Events after the End of the Reporting Period

Save as disclosed in this announcement, there has been no other significant events that might affect the Group since the end of the Reporting Period and up to the date of this announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, March 31, 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.