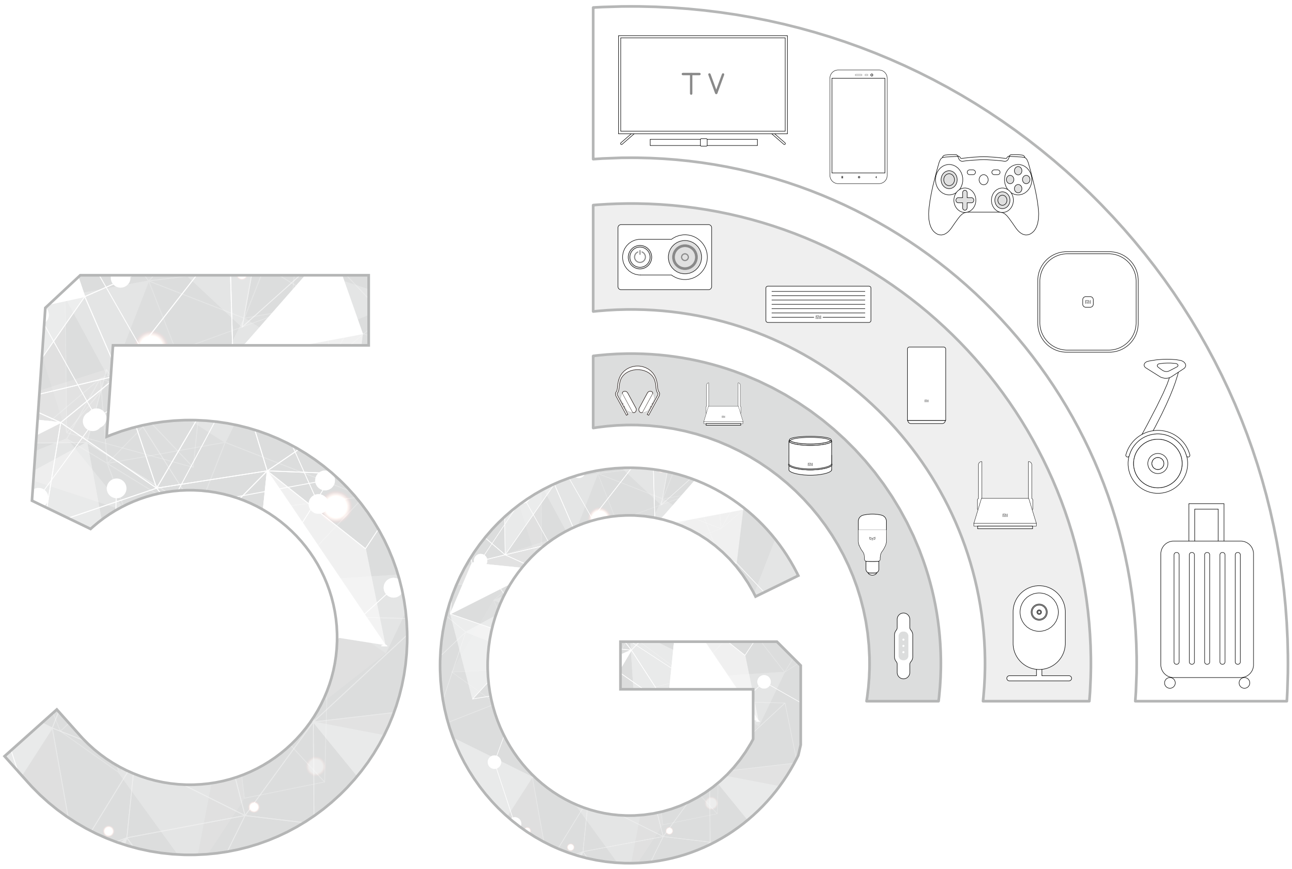
小米十周年
XIAOMI 10th ANNIVERSARY
2010–2020

Stock Code： 1810




# XIAOMI CORPORATION

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

# 2019 ANNUAL REPORT

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

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

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

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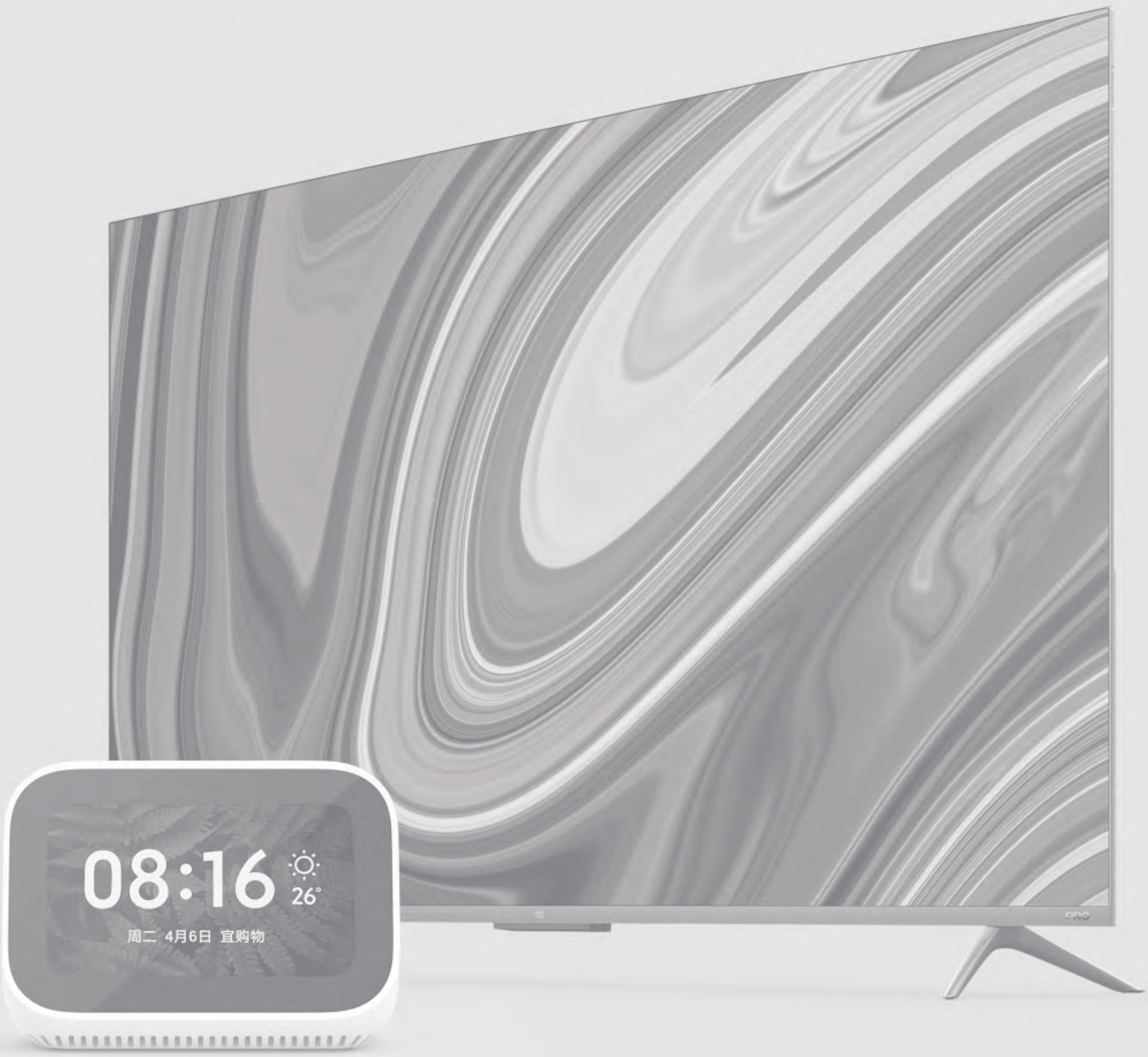
108MP
5G

We relentlessly build amazing products

with honest prices to let everyone in the world

enjoy a better life through innovative technology



# OPEN LETTER FROM OUR CHAIRMAN

**Dear investors and friends:**

The world is still under the dark shadows of COVID-19, and during these extraordinary times, nothing is more important than your well-being. As such, I sincerely wish good health for you and your loved ones.

We have just released our full year financial results for the year ended December 31, 2019. Besides reporting on our growth, I believe it is equally important for us to share our vision and strategies on how we can overcome economic "black swan" events.

## A year of prudent management and proactive progress

In 2019, Xiaomi exceeded RMB200 billion in revenue for the first time, reaching RMB205.8 billion, an increase of 17.7% year-on-year, as well as adjusted net profit of RMB11.5 billion, an increase of 34.8% year-on-year. Against the backdrop of uncertainties related to Sino-US trade tensions, Xiaomi's commendable results stood out in strong contrast.

In 2019, Xiaomi hit a series of significant milestones. We made our inaugural entry into the Fortune Global 500 list, becoming the youngest company on the list. We entered Brandz's global brand TOP100 for the first time, ranking 74th. We also accomplished an unprecedented record, becoming the first smart TV brand to ship more than 10 million units annually in China ever.

## Foresight, confidence, resilience and strong execution are key to our continued progress

Mobile telecommunications is at a critical juncture globally, as the industry transitions from 4G to 5G. We have adopted a sound business strategy, focusing on product quality, innovation, and delivery, while making key adjustments to our brands, product portfolios, organizational structure, and management systems. Combined together, these initiatives have paved a solid foundation for our future.

We have officially launched a dual-brand strategy for our smartphones business, with the brand separation of Redmi from Xiaomi. Their independent operations have brought us great success. Our market share is consistently ranked among the top four globally, while our healthy and prudent inventory levels have enabled us to step forward boldly with our 5G game plan. In the fourth quarter of 2019, close to half of our revenue came from overseas markets, making Xiaomi a truly global company. Our internet services business has become more dynamic and diverse, while our AIoT business maintained its global leadership, becoming recognized across our industry as a "first mover in smart living".

## Business success on the back of technological innovation

At Xiaomi, we firmly believe that our business success is underpinned by technological innovations, and to that effect, we have continually increased our research and development ("R&D") investment. In 2019, our R&D investment reached RMB7.5 billion, a 29.7% year-on-year increase on the back of substantial R&D expansion for the three prior years. In 2020, we expect our R&D investment to increase to RMB10 billion.

At the same time, we are also proactively attracting top R&D talent from around the world. Recently, we have successfully recruited Daniel Povey, a top international expert in artificial intelligence (AI), to join Xiaomi. Starting from 2019, we have set up the Xiaomi Annual Technology Award, which awards a US$1 million bonus to core R&D project personnel with the highest technical achievements each year. Last year, the award was shared by 10 engineers from the Xiaomi MIX Alpha project.

## Our strategic roadmap of "5G+AI+IoT and next generation super internet"

To us, 5G is not merely about a faster smartphone network, while AIoT is also not just about AI technologies or IoT platforms. Instead, "5G+AIoT" will be a revolutionary combination that will fundamentally change all Xiaomi's products, platforms and user scenarios, catalyzing the next stage of our growth in the next generation of internet era. At the start of last year, we first proposed our "All in AIoT" initiative, allocating an investment of RMB10 billion in AIoT over the next five years. One year in, we believe we are moving in an important strategic direction. As such, we will increase our investment to at least RMB50 billion over the next five years in "5G+AIoT", to ensure our absolute dominance over the new smart living era.

This bold initiative will enable us to create greater value for you and is a tangible reflection of the philosophy we adhere to: By making a connected world a reality for billions of people globally. We believe technology can be a force for good to improve lives everywhere.

We firmly believe that a connected world is better than an isolated one. We also firmly believe in the economic value created by global collaboration, and how the world can truly change when technology is freely accessible.

During the COVID-19 outbreak, as we witnessed people in isolation connecting with their family, loved ones and even their pets through their smart devices, we could feel the very human desires to connect and to care.

It is famously said that no man is an island. At Xiaomi, we deeply believe in this. As we build the next generation super internet, we will continue to use technology to connect and improve lives everywhere.

# OPEN LETTER FROM OUR CHAIRMAN

## Operational efficiency as the ultimate way to overcome crises

While our industry and the entire world are currently facing huge challenges, we have absolute confidence in navigating through these extraordinary times together with our partners. During this period of adversity, the strength of our operational efficiency will be more obvious than ever.

At Xiaomi, we have always been very focused on efficiency. We believe that the pursuit of efficiency is an exercise in self-discipline and contingency planning.

Having experienced the SARS epidemic and global financial crisis in 2003 and 2008 respectively, my colleagues and I know crises are the ultimate litmus test that separates successful companies from others. Our efficient operations, strong execution capabilities and consumer trust will enable us to seek out opportunities during crises and stay on a sustainable growth trajectory.

During our IPO, we said that a company that is able to achieve world-class efficiency will have the ability to survive multiple economic cycles, continuously seize new opportunities and sustain excellent operational performance in the long run. Now more than ever, we want to reiterate this.

We are also safeguarding our competitiveness through a series of organizational restructuring. Over the past year, we have established the Organization Department to improve our management processes. We have also set up our employee training campus and ramped up our college recruitment efforts. These initiatives form a key part of our overall effort to grow and sustain our operational efficiency.

## In the face of challenges, perseverance is key

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 ensure that we stay true to our mission, our board of directors passed a special resolution before our IPO last year. According to the resolution, we pledged to our existing and potential users that the overall net profit margin of Xiaomi's hardware business will never exceed 5%.

## A commitment to our consumers and a testament to our efficiency

As we stay true to our commitment to our users, we are pleased to share that, similar to last year, our hardware business net margin in the year ended December 31, 2019 maintained positive and less than 1.0%.

It is also worth highlighting that Xiaomi as a standalone smartphone brand has been re-launched early last year. With the release of Mi 9, Mi 9 Pro 5G and CC 9 Pro last year, and the release of the Mi 10 series earlier this year, it is proven that the Xiaomi brand can move upscale while continuing to win over our users via "amazing products at honest prices".

Despite the impact of COVID-19, we remain optimistic about our future prospects. To date, our supply capacity has recovered to 90% of normal levels and we are seeing light at the end of the tunnel in China. Fortune favors the brave and this year, Xiaomi will continue to act swiftly and decisively.

In a few days, we will celebrate our tenth anniversary on April 6$^{th}$. Over the past ten tumultuous years, Xiaomi has created a series of miracles. In the next ten years, we will continue to steadily move forward, turning Xiaomi's vision into reality. Thank you for trusting us, investing in us, and joining us in our journey to let billions of people around the world enjoy better lives through innovative technology.

Lei Jun
*Chairman*
March 31, 2020

# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Lei Jun（雷軍）*(Chairman of the Board)*
Lin Bin（林斌）*(Vice Chairman of the Board)*
Chew Shou Zi （周受資）(appointed with effect from October 25, 2019)

### Non-Executive Directors

Koh Tuck Lye （許達來）(resigned from the Board with effect from October 25, 2019)
Liu Qin（劉芹）

### Independent Non-Executive Directors

Chen Dongsheng （陳東升）
Lee Ka Kit （李家傑）(resigned from the Board with effect from August 23, 2019)
Wong Shun Tak （王舜德）
Tong Wai Cheung Timothy （唐偉章）(appointed with effect from August 23, 2019)

## Audit Committee

Wong Shun Tak （王舜德）*(Chairman)*
Liu Qin （劉芹）
Chen Dongsheng （陳東升）

## Remuneration Committee

Chen Dongsheng （陳東升）*(Chairman)*
Lei Jun （雷軍）
Wong Shun Tak （王舜德）

## Nomination Committee

Tong Wai Cheung Timothy（唐偉章）*(Chairman)*
Lin Bin （林斌）
Wong Shun Tak （王舜德）

## Corporate Governance Committee

Chen Dongsheng （陳東升）*(Chairman)*
Wong Shun Tak （王舜德）
Tong Wai Cheung Timothy （唐偉章）

## Joint Company Secretaries

Lin Steve （林冠男）
So Ka Man （蘇嘉敏）

## Authorized Representatives

Lin Bin （林斌）
So Ka Man （蘇嘉敏）

## Auditor

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

## Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

## Head Office and Principal Place of Business in Mainland China

Xiaomi Campus
Anningzhuang Road
Haidian District
Beijing
The People's Republic of China

## Principal Place of Business in Hong Kong

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

## Hong Kong Legal Advisors

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

## Compliance Advisor

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

## Hong Kong Share Registrar

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

## Principal Share Registrar and Transfer Office

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

## Principal Banker

China Merchants Bank, Beijing Branch, Shouti Sub-branch

## Stock Code

1810

## Company Website

www.mi.com

# FIVE-YEAR FINANCIAL SUMMARY

## Condensed consolidated statements of comprehensive income

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2019 RMB'000** | 2018 RMB'000 | 2017 RMB'000 | 2016 RMB'000 | 2015 RMB'000 |
| Revenue | **205,838,682** | 174,915,425 | 114,624,742 | 68,434,161 | 66,811,258 |
| Gross profit | **28,554,033** | 22,191,939 | 15,154,205 | 7,249,355 | 2,699,933 |
| Operating profit | **11,760,217** | 1,196,472 | 12,215,467 | 3,785,064 | 1,372,670 |
| Profit/(loss) before income tax | **12,162,646** | 13,927,124 | (41,829,352) | 1,175,509 | (7,472,511) |
| Profit/(loss) for the year | **10,102,950** | 13,477,747 | (43,889,115) | 491,606 | (7,627,030) |
| Profit/(loss) attributable to owners of the Company | **10,044,164** | 13,553,886 | (43,826,016) | 553,250 | (7,581,295) |
| Total comprehensive income/(loss) for the year | **10,543,383** | 11,921,632 | (35,994,749) | (6,307,155) | (13,136,127) |
| Total comprehensive income/(loss) attributable to owners of the Company | **10,472,914** | 11,989,243 | (35,922,124) | (6,254,475) | (13,098,817) |
| Non-IFRS Measure: Adjusted net profit/(loss) (unaudited) | **11,532,296** | 8,554,548 | 5,361,876 | 1,895,657 | (303,887) |

## Condensed consolidated balance sheets

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | **2019 RMB'000** | 2018 RMB'000 | 2017 RMB'000 | 2016 RMB'000 | 2015 RMB'000 |
| **Assets** | | | | | |
| Non-current assets | **46,090,121** | 39,215,389 | 28,731,300 | 20,129,283 | 14,184,010 |
| Current assets | **137,539,086** | 106,012,561 | 61,138,461 | 30,636,318 | 24,952,527 |
| Total assets | **183,629,207** | 145,227,950 | 89,869,761 | 50,765,601 | 39,136,537 |
| | | | | | |
| **Equity and liabilities** | | | | | |
| Equity attributable to owners of the Company | **81,330,574** | 71,322,985 | (127,272,361) | (92,191,670) | (86,714,478) |
| Non-controlling interests | **327,102** | (72,856) | 61,670 | 133,795 | 76,170 |
| Total equity | **81,657,676** | 71,250,129 | (127,210,691) | (92,057,875) | (86,638,308) |
| | | | | | |
| Non-current liabilities | **9,790,826** | 12,037,663 | 169,947,781 | 116,760,214 | 109,310,565 |
| Current liabilities | **92,180,705** | 61,940,158 | 47,132,671 | 26,063,262 | 16,464,280 |
| Total liabilities | **101,971,531** | 73,977,821 | 217,080,452 | 142,823,476 | 125,774,845 |
| Total equity and liabilities | **183,629,207** | 145,227,950 | 89,869,761 | 50,765,601 | 39,136,537 |

## Year ended December 31, 2019

| Revenue | Non-IFRS Measure: Adjusted net profit | MIUI MAU | Connected IoT devices |
| --- | --- | --- | --- |
| RMB205.8 billion | RMB11.5 billion | 309.6[1] million | 234.8[2] million units |

## Year-on-year growth rate

| Non-IFRS Measure: Adjusted net profit | IoT revenue | Internet services revenue | Overseas revenue |
| --- | --- | --- | --- |
| 34.8% | 41.7% | 24.4% | 30.4% |

Note:

(1) MIUI MAU in December 2019.

(2) Connected IoT devices as of December 31, 2019, excluding smartphones and laptops.

# CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended December 31, 2019 to the shareholders.

## Business Review and Outlook

OVERALL PERFORMANCE

SMARTPHONES

IoT AND LIFESTYLE PRODUCTS

INTERNET SERVICES

OVERSEAS MARKETS

STRATEGIC UPDATE

### 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.

# CHAIRMAN'S STATEMENT

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.

# CHAIRMAN'S STATEMENT

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 annual report.

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 annual report, 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 (excluding smartphones and laptops) 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 annual report, 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.

# CHAIRMAN'S STATEMENT

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.

Lei Jun
*Chairman*

Hong Kong
March 31, 2020

# 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 Report 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 Report 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 | 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 | 205,838.7 | 100.0% | 174,915.4 | 100.0% |

### 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 Report Period, driven by growth in both sales volume and ASP. We sold approximately 124.6 million smartphone units for the Report 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 Report 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 Report 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 Report Period.

# MANAGEMENT DISCUSSION AND ANALYSIS

### 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 Report 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 Report 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 Report Period. The following table sets forth our cost of sales by line of business for the Report 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 | **177,284.6** | **86.1%** | 152,723.5 | 87.3% |

### 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report Period, primarily due to our elevated overseas marketing efforts during the Report 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 Report Period, primarily due to the strong growth in our overseas business.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 Report 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 Report 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 Report 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 Report Period, primarily due to changes in fair value of our equity and preferred share investments for the Report 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 Report 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 Report 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 Report 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 Report 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 Report 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 Report Period, primarily due to 1) an increase of profit in mainland China for the Report 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 Report Period, compared with a profit of RMB13.5 billion for the year ended December 31, 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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, 2019 | December 31, 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, 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 | 56,469.7 | 100.0% | 44,421.4 | 100.0% |

### 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

### 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 | |
| | Amount | % of total revenue | Amount | % of total 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 | 48,626.4 | 86.1% | 38,760.2 | 87.3% |

### 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 Period

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, 2019 | September 30, 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 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 | | | |
|---|---|---|---|---|
| | Three months ended | | | |
| | December 31, 2019 | | September 30, 2019 | |
| | Amount | % of total revenue | Amount | % of total revenue |
| | (RMB in millions, unless specified) | | | |
| 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 | **56,469.7** | **100.0%** | 53,661.0 | 100.0% |

### 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 | **48,626.4** | **86.1%** | 45,424.6 | 84.7% |

### 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

### 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | | |
| | As reported | Fair value changes of convertible redeemable preferred shares | Share-based compensation | Net fair value changes on investments[1] | Amortization of intangible assets resulting from acquisitions[2] | Changes of value of financial liabilities to fund investors[3] | Income tax effects[4] | Non-IFRS |
| | (RMB in thousand, unless specified) | | | | | | | |
| Profit for the period | 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Adjustments | | | | | | |
| | As reported | Fair value changes of convertible redeemable preferred shares | Share-based compensation | Net fair value changes on investments[1] | Amortization of intangible assets resulting from acquisitions[2] | Changes of value of financial liabilities to fund investors[3] | Income tax effects[4] | Non-IFRS |
| | (RMB in thousand, unless specified) | | | | | | | |
| Profit for the period | 2,519,429 | — | 586,275 | 450,748 | 79 | 6,708 | (91,133) | 3,472,106 |
| Net margin | 4.7% | | | | | | | 6.5% |

# MANAGEMENT DISCUSSION AND ANALYSIS

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

1 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 |
| Net decrease in cash and cash equivalents | (9,354,651) | (60,762) |
| 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 |
| Cash and cash equivalents at end of period | 25,919,861 | 35,539,164 |

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 annual report.

## Net Cash Generated From Operating Activities

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

In the 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 | 2,283,482 | 1,224,627 |

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 Report 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 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.

# DIRECTOR'S REPORT

The Board of the Company is pleased to present this Director's report together with the consolidated financial statements of the Group for the year ended December 31, 2019.

## Principal Activities

The Company is an investment holding company. During the year ended December 31, 2019, the Group was principally engaged in development and sales of smartphones, IoT and lifestyle products, provision of internet services and investments holding in the PRC and other countries or regions.

## Business Review

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business, a description of the principal risks and uncertainties facing the Group and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this annual report. Events affecting the Company that have occurred since the end of the financial year are set out in the section headed "Events after December 31, 2019" in this annual report.

## Share Capital and Shares Issued

Details of movements in the share capital of the Company for the year ended December 31, 2019 and details of the Shares issued during the year ended December 31, 2019 are set out in Note 25 to the consolidated financial statements.

## Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 11(a) to the consolidated financial statements.

## Property and Equipment

Details of movements in the property and equipment of the Group during the year ended December 31, 2019 are set out in Note 14 to the consolidated financial statements.

## Bank Loans and Borrowings

Particulars of bank loans and other borrowings of the Group as of December 31, 2019 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 33 to the consolidated financial statements.

## Donation

During the year ended December 31, 2019, the Group made charitable donations of approximately RMB22.0 million.

## Five-Year Financial Summary

A summary of the condensed consolidated results and financial positions of the Group is set out on page 10 of this annual report.

## Reserves

As of December 31, 2019, the Company had distributable reserves amounting to RMB39,223.6 million.

Details of the movements in the reserves of the Company during the year ended December 31, 2019 are set out in Note 41 to the consolidated financial statements.

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

During the year ended December 31, 2019, 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. The Board believed that a share repurchase demonstrated the Company's confidence in its own business outlook and prospects and would, ultimately, benefit the Company and create value to its Shareholders. Particulars of the Shares Repurchased are as follows:

| Month of Repurchase | No. of Shares Repurchased | Price paid per share Highest *(HK$)* | Lowest *(HK$)* | Aggregate Consideration *(HK$)* |
|---|---|---|---|---|
| January | 19,972,200 | 10.20 | 9.74 | 199,931,233 |
| June | 97,927,800 | 10.04 | 8.96 | 925,210,318 |
| July | 7,610,000 | 10.00 | 9.70 | 74,840,553 |
| 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 | 338,272,800 | | | 3,114,211,782 |

# DIRECTOR'S REPORT

As at the Latest Practicable Date, 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 year ended December 31, 2019.

## Share Option Schemes

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

### 1. Pre-IPO ESOP

The following is a summary of principal terms of the Pre-IPO ESOP adopted by the Company on May 5, 2011, superseded on August 24, 2012.

(a) **Purpose**

The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of recipients upon whose judgment, interest and special effort the successful conduct of the Company's operation is largely dependent.

(b) **Eligible participants**

The eligible participants include employees, consultants, all members of the Board, and other individuals, as determined, authorized and approved by the Board or a committee authorized by the Board. Awards in the form of share options, restricted share awards and restricted stock units ("**RSU**") may be granted to selected participants.

(c) **Maximum number of shares available for issue**

The overall limit on the number of Shares which may be issued pursuant to the Pre-IPO ESOP is 251,307,455 Class B Shares, which was subsequently adjusted by the Board to 2,512,694,900 Class B Shares (adjusted after taking into account the share subdivision which took place on June 17, 2018).

(d) **Maximum entitlement of each participant**

There is no maximum entitlement of each participant.

(e) **Option period**

The share options may not be exercised until vested. The Board shall determine the time or times at which an option may be exercised, provided that the term of any option granted under the Pre-IPO ESOP shall not exceed ten years. Once vested, the vested portion of the option may be exercised in whole or in any part, at any time.

As for the RSUs, at the time of grant, the Board shall specify the date or dates on which the RSUs shall become fully vested and nonforfeitable.

(f) **Exercise price and payment**

The exercise price per share subject to a share option under the Pre-IPO ESOP shall be determined by the Board and set out in the award agreement and may be a fixed or variable price related to the fair market value of the Class B Shares.

# DIRECTOR'S REPORT

The Board may set performance objectives or other vesting criteria which, depending on the extent to which they are met, will determine the number or value of RSUs that will be paid out to the selected participants.

(g) **Remaining life of the scheme**

The term of the Pre-IPO ESOP commenced on August 24, 2012 and will expire on the tenth anniversary of the above starting date.

As of December 31, 2019, the Company has conditionally granted share options and RSUs to eligible participants pursuant to the Pre-IPO ESOP, entitling the holders to acquire an aggregate of 699,683,047 outstanding Class B Shares, excluding 687,669,286 Class B shares which have been exercised for the year ended December 31, 2019. Except for Chew Shou Zi (who was not a Director at the time of grant but was subsequently appointed as an executive Director of the Company with effect from October 25, 2019), no share options and RSUs had been granted to the Directors. No further option could be granted under the Pre-IPO ESOP after the Listing.

Details of movements of share options and RSUs granted under the Pre-IPO ESOP during the year ended December 31, 2019 are as follows:

| | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|
| Grantees | Dates of grant | Vesting period | Outstanding as of January 1, 2019 | Cancelled/ Lapsed during the Year | Exercised during the year | Outstanding as of December 31, 2019 | Exercise price (US$) |
| Chew Shou Zi | August 1, 2015<br>January 1, 2018 | 5–10 years | 50,000,000 | (–) | (24,576,749) | 25,423,251 | 0 to 0.102 |
| 7,125 grantees in aggregate | Between April 1, 2010 to June 14, 2018 | 1–10 years | 1,392,334,553 | (54,982,220) | (663,092,537) | 674,259,796 | 0 to 0.34 |
| Total | | | 1,442,334,553 | (54,982,220) | (687,669,286) | 699,683,047 | |

Further details of the Pre-IPO ESOP are set out in Note 28 to the consolidated financial statements.

## 2. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme adopted by the Company on June 17, 2018.

### (a) Purpose

The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and the Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

### (b) Eligible participants

Eligible participants under the Post-IPO Share Option Scheme include any employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Board determines.

### (c) Maximum number of shares available for issue

The total number of Class B Shares which may be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other schemes is 2,237,613,083 Class B Shares, being no more than 10% of the Class B Shares in issue on the Listing Date. The overall limit on the number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Class B Shares in issue from time to time.

### (d) Maximum entitlement of each participant

Unless approved by shareholders of the Company, the total number of Class B Shares issued and to be issued upon exercise of the options granted and to be granted under the Post-IPO Share Option Scheme and any other share option scheme(s) of the Company to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Class B Shares in issue. Any further grant of options to a selected participant which would result in the aggregate number of Class B Shares issued and to be issued upon exercise of all options granted and to be granted to such selected participant (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date if such further grant exceeding the individual limit shall be subject to separate approval of shareholders of the Company (with such selected participant and his associates abstaining from voting).

# DIRECTOR'S REPORT

(e) **Grant of option and option period**

An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee with the number of Class B Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof, which must be received by the Company within 20 business days from the date on which the offer letter is delivered to the grantee. To the extent that the offer is not accepted within 20 business days from the date on which the letter containing the offer is delivered to that selected participant, it shall be deemed to have been irrecoverably declined.

An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board may from time to time determine stating that the option is thereby exercised and the number of Class B Shares in respect of which it is exercised.

The Post-IPO Share Option Scheme does not set out any performance targets that must be achieved before the options may be exercised. However, the Board or its delegate(s) may at their sole discretion specify, as part of the terms and conditions of any option, such performance conditions that must be satisfied before the option can be exercised.

(f) **Exercise price**

The exercise price under an option shall be determined by the Board but shall be not less than the greater of:

(i) the closing price of a Class B Share as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant;

(ii) the average closing price of the Class B Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Class B Share on the date of grant.

(g) **Remaining life of the scheme**

The Post-IPO Share Option Scheme shall be valid and effective for the period of ten years commencing on the Listing Date.

As of December 31, 2019, no options had been granted or agreed to be granted pursuant to the Post-IPO Share Option Scheme since its adoption. The total number of Class B Shares available for grant under the Post-IPO Share Option Scheme is 2,237,613,083 Class B Shares, representing approximately 9.30% of the issued share capital of the Company as at the Latest Practicable Date.

### 3. XMF Share Option Schemes

Unless otherwise defined below, terms used in this sub-section shall have the same meaning as those defined in the section headed "Definitions":

| | |
|---|---|
| **"Xiaomi Finance Group"** | Xiaomi Finance, its subsidiaries and consolidated affiliated entities |
| **"XMF Board"** | the board of directors of Xiaomi Finance (or if Xiaomi Finance has only a sole director, that director) or a committee thereof duly appointed for the purpose of administering the XMF Share Option Schemes |
| **"XMF Share Options Schemes"** | XMF Share Options Scheme I and XMF Share Options Scheme II |
| **"XMF Shares"** | ordinary share(s) in the share capital of Xiaomi Finance of nominal value of US$0.0001, or if there has been a subsequent sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of Xiaomi Finance, the shares in the ordinary share capital of Xiaomi Finance resulting from such sub-division, reduction, consolidation, reclassification or reconstruction |
| **"XMF Subscription Price"** | The price per XMF Share at which a grantee may subscribe for XMF Shares on the exercise of an option under the XMF Share Option Schemes |

| Details | XMF Share Option Scheme I | XMF Share Option Scheme II |
|---|---|---|
| 1. Purposes | To provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders. | To provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders. |
| 2. Eligible participants | Any directors and employees of any member of Xiaomi Finance Group (including nominees and/or trustees of any employee benefit trusts established for them) or any associates as the XMF Board determines. | Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Xiaomi Finance Group or any of the Xiaomi Finance Group's affiliates as the XMF Board or its delegates determines. |

# DIRECTOR'S REPORT

| Details | XMF Share Option Scheme I | XMF Share Option Scheme II |
|---|---|---|
| 3. Maximum number of shares available for issue | The overall limit on the number of XMF Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme I at any time shall not exceed 42,070,000 XMF Shares subject to any adjustments for share subdivisions or other dilutive issuances. | The maximum number of XMF shares represented by the options to be issued under the XMF Share Option Schemes shall be 150,000,000 XMF Shares. |
| 4. Maximum entitlement of each participant | There is no maximum entitlement of each participant. | There is no maximum entitlement of a grantee, save that no options shall be granted to Lei Jun (or entities controlled by him) if such grant would result in Lei Jun's effective interest in Xiaomi Finance exceeding 28.0467% (being the effective equity interest of Lei Jun in the share capital of our Company on the Listing Date). |
| 5. Option period | An option may be exercised in accordance with the terms at any time during a period to be determined and notified by the XMF Board to each grantee at the time of grant, which shall end not later than 20 years from the date of grant of the option. | An option may, subject to the rules of the XMF Share Option Scheme II and the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to Xiaomi Finance in such form as the XMF Board may from time to time determine stating that the option is thereby exercised and the number of XMF Shares in respect of which it is exercised.<br><br>The XMF Board has the authority to determine and to include in a grant offer letter the minimum period for which an option must be held before it can vest. The XMF Share Option Scheme II does not specify any minimum holding period. |

| Details | XMF Share Option Scheme I | XMF Share Option Scheme II |
|---|---|---|
| 6. XMF Subscription Price | The XMF Subscription Price shall be determined by the XMF Board and shall not be less than the per XMF Share valuation based on the most recent appraised value of Xiaomi Finance prior to the adoption of the scheme, which is RMB3.8325 per XMF Share. | The XMF Subscription Price shall not be less than the nominal value of a XMF Share or the per XMF Share valuation based on the most recent appraised value of Xiaomi Finance prior to the Listing Date, which is RMB3.8325 per XMF Share.<br><br>An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the grant offer letter comprising acceptance of the offer duly signed by the grantee with the number of XMF Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Xiaomi Finance of HK$1.00 by way of consideration for the grant thereof, which must be received by Xiaomi Finance within 20 business days from the date on which the grant offer letter is delivered to the grantee. |
| 7. Remaining life of the scheme | It will remain in force from June 17, 2018 until July 9, 2018, both dates inclusive. No further options will be offered or granted after the Listing Date. | It will remain valid and effective for the period of 10 years starting from the Listing Date. |

# DIRECTOR'S REPORT

As of December 31, 2019, there were a total of 42,070,000 outstanding share options granted under the XMF Share Option Scheme I. Details of movements of share options granted under the XMF Share Option Scheme I during the year ended December 31, 2019 are as follows:

| Name | Date of grant | Option period | Number of XMF Shares represented by the options granted | Number of options exercised during the year | Numbers of options as of December 31, 2019 | Subscription price (RMB) |
|---|---|---|---|---|---|---|
| Lei Jun | June 17, 2018 | 20 years from the date of grant | 42,070,000 | — | 42,070,000 | 3.8325 |

As of December 31, 2019, no options had been granted or agreed to be granted pursuant to the XMF Share Option Scheme II since its adoption. The total number of XMF Shares available for grant under the XMF Share Option Scheme II was 107,930,000 XMF Shares, representing 107.93% of the issued share capital of Xiaomi Finance as at the Latest Practicable Date and 43.17% of the issued share capital of Xiaomi Finance assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised.

## 4. Pinecone Share Option Schemes

Unless otherwise defined below, terms used in this sub-section shall have the same meaning as those defined in the section headed "Definitions":

| | |
|---|---|
| **"Pinecone Board"** | the board of directors of Pinecone International |
| **"Pinecone Group"** | Pinecone International, its subsidiaries and consolidated affiliated entities |
| **"Pinecone Options"** | share options granted under the Pinecone Share Option Scheme I |
| **"Pinecone Share Awards"** | restricted or unrestricted share awards granted under the Pinecone Share Option Scheme I |
| **"Pinecone Ordinary Shares"** | ordinary share(s) in the share capital of Pinecone International of nominal value of US$0.0001 |
| **"Pinecone Subscription Price"** | The price per Pinecone Ordinary Share at which a grantee may subscribe for Pinecone Ordinary Shares on the exercise of an option under the Pinecone Share Option Scheme II |

| Details | Pinecone Share Option Scheme I | Pinecone Share Option Scheme II |
|---|---|---|
| 1. Purposes | To promote the success of the Pinecone International and the interests of its shareholders by providing a means through which the Pinecone International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of awarded recipients with those of Pinecone International's shareholders generally. | To provide selected participants with the opportunity to acquire proprietary interests in Pinecone International and to encourage selected participants to work towards enhancing the value of Pinecone International and its shares for the benefit of Pinecone International and its shareholders, including our Company, as a whole. |
| 2. Eligible participants | Any officer (whether or not a director) or employee, any director of Pinecone Group, or any individual consultant or advisor who renders or has rendered bona fide services (with certain exceptions) to Pinecone Group as one or more committees appointed by the Pinecone Board determine.<br><br>Selected eligible participants may be granted awards in the form of Pinecone Options or Pinecone Share Awards. | Any individual, being an employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Pinecone Group or any affiliate as the Pinecone Board or its delegates determines. |

# DIRECTOR'S REPORT

| Details | Pinecone Share Option Scheme I | Pinecone Share Option Scheme II |
|---|---|---|
| 3. Maximum number of shares available for issue | The total number of underlying shares which may be issued upon exercise of all options granted pursuant to the Pinecone Share Option Scheme I is 9,532,868 Pinecone Ordinary Shares. | The total number of shares that may be issued upon exercise of all options to be granted under the Pinecone Share Option Scheme II and any other schemes is 2,467,132 Pinecone Ordinary Shares. The overall limit on the number of Pinecone Ordinary Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the Pinecone Share Option Scheme II and any other schemes at any time must not exceed 48% of the Pinecone Ordinary Shares in issue from time to time. |
| 4. Maximum entitlement of each participant | There is no maximum entitlement of each participant. | The total number of Pinecone Ordinary Shares issued and to be issued upon exercise of the options granted and to be granted under Pinecone Share Option Scheme II and other share option scheme(s) of Pinecone International to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1.0% of the total number of Pinecone Ordinary Shares in issue |

| Details | Pinecone Share Option Scheme I | Pinecone Share Option Scheme II |
|---|---|---|
| 5. Option period | A Pinecone Option may be exercised only to the extent that it is vested and exercisable, subject to the vesting and exercisability provisions as determined by the board of Pinecone International, provided the term of any Pinecone Option granted shall not exceed ten years.<br><br>A Pinecone Share Award shall either vest or be repurchased by the Company as provided by the Pinecone Share Option Scheme I, not more than 10 years after the date of grant. | An option may, subject to the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to Pinecone International in such form as the board of Pinecone International may from time to time determine, stating that the option is thereby exercised and the number of shares in respect of which it is exercised.<br><br>The Pinecone Board has the authority to determine and to include in a grant offer letter the minimum period for which an option must be held before it can vest. The Pinecone Share Option Scheme II does not specify any minimum holding period. |

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| Details | Pinecone Share Option Scheme I | Pinecone Share Option Scheme II |
|---|---|---|
| 6. Exercise Price | The exercise price must not be lower than the par value of the underlying Pinecone Ordinary Share, and in certain circumstances must not be lower than defined multiples of the fair market value of the underlying Pinecone Ordinary Shares.<br><br>The Pinecone Board will determine the purchase price per Pinecone Ordinary Share covered by each Pinecone Share Award at the time of grant of the Pinecone Award. In no case will such purchase price be less than the par value of the Pinecone Ordinary Shares. | The Pinecone Subscription Price shall be determined by the Pinecone Board in relation to each option at the time of grant and specify the Pinecone Subscription Price in the grant offer letter.<br><br>An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the grant offer letter comprising acceptance of the offer duly signed by the grantee with the number of Pinecone Ordinary Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Pinecone International of HK$1.00 by way of consideration for the grant thereof, which must be received by Pinecone International within 20 business days from the date on which the grant offer letter is delivered to the grantee. |
| 7. Remaining life of the scheme | It commenced on July 30, 2015 and will expire on the tenth anniversary thereof. | It shall be valid and effective for the period of 10 years commencing July 9, 2018. |

As of December 31, 2019, there were 69,307 outstanding Pinecone Options granted under the Pinecone Share Option Scheme I. The aggregate number of underlying Pinecone Ordinary Shares pursuant to the Pinecone Options granted is 9,532,868 Pinecone Ordinary Shares.

Details of movements of Pinecone Options under the Pinecone Share Option Scheme I during the year ended December 31, 2019 are as follows:

| | | | Number of share options | | | |
|---|---|---|---|---|---|---|
| Grantees in aggregate | Date of grant | Vesting period | Outstanding as of January 1, 2019 | Cancelled/ Lapsed during the Year | Outstanding as of December 31, 2019 | Exercise price (US$) |
| 177 | Between May 18, 2015 to June 8, 2018 | 4 years | 9,257,842 | (9,188,535) | 69,307 | 0.0001 to 1.0377 |

As of December 31, 2019, no options under the Pinecone Share Option Scheme II had been granted or agreed to be granted since its adoption. The total number of Pinecone Ordinary Shares available for grant under the Pinecone Share Option Scheme II was 2,467,132 Pinecone Ordinary Shares, representing 9.87% of the issued share capital of Pinecone International as at the Latest Practicable Date.

# DIRECTOR'S REPORT

## Share Award Scheme

The following is summary of the principal terms of the Share Award Scheme adopted by the Company on June 17, 2018.

### 1. Purpose

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

### 2. Eligible participants

The eligible participants include any individual, being an employee, director (including executive Directors, non-executive Directors and independent non-executive Directors), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Board determines.

### 3. Maximum number of shares available for award

The aggregate number of Class B Shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 Shares without Shareholders' approval subject to an annual limit of 3% of the total number of issued Shares at the relevant time.

### 4. Maximum entitlement of each participant

There is no maximum entitlement of each participant.

### 5. Restrictions on grants

The Board and its delegate(s) may not grant any award ("**Award**") in the form of Class B Shares pursuant to the Share Award Scheme (the "**Award Shares**") to any selected participant in any of the following circumstances:

(i) where any requisite approval from any applicable regulatory authorities has not been granted;

(ii) where any member of the Group will be required under applicable securities laws, rules or regulations to issue a prospectus or other offer documents in respect of such Award or the Share Award Scheme, unless the Board determines otherwise;

(iii) where such Award would result in a breach by any member of the Group or its directors of any applicable securities laws, rules or regulations in any jurisdiction;

(iv) where such grant of Award would result in a breach of the Share Award Scheme limit or would otherwise cause the Company to issue Class B Shares in excess of the permitted amount in the mandate approved by the Shareholders;

(v) where any Director is in possession of unpublished inside information in relation to the Company or where dealings by Directors are prohibited under any code or requirement of the Listing Rules and all applicable laws, rules or regulations;

(vi) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(vii) during the period of 30 days immediately preceding the publication date of the half-year results or, if shorter, the period from the end of the relevant half-year period up to the publication date of the results.

### 6. Vesting and lapse

The Board or its delegate(s) may from time to time while the Share Award Scheme is in force and subject to all applicable laws, determine such vesting criteria and conditions or periods for the Award Shares to be vested/lapsed.

### 7. Rights attached to the Award Shares

Save that the Board at its discretion may from time to time determine that any dividends declared and paid by the Company in relation to the Award Shares be paid to the selected participants even though the Award Shares have not yet vested, the selected participant only has a contingent interest in the Award Shares underlying an Award unless and until such Award Shares are actually transferred to the selected participant, nor does he/she have any rights to any related income until the Award Shares vest.

No voting rights may be exercised in respect of any Award Shares that have not yet vested.

# DIRECTOR'S REPORT

## 8. Duration and Termination

The Share Award Scheme shall terminate on the earlier of:

(i) the end of the period of ten years commencing on the Listing Date except in respect of any non-vested Award Shares granted under the Share Award Scheme prior to the expiration of the Share Award Scheme, for the purpose of giving effect to the vesting of such Award Shares or otherwise as may be required in accordance with the provisions of the Share Award Scheme; and

(ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the rules of the Share Award Scheme, provided further that for the avoidance of doubt, the change in the subsisting rights of a selected participant in this paragraph refers solely to any change in the rights in respect of the Award Shares already granted to a selected participant.

As of December 31, 2019, a total of 98,449,031 Award Shares had been granted under the Share Award Scheme, all of which were granted to third parties independent of the Company and its connected persons. Details of the Award Shares granted under the Share Award Scheme and their movements during the year ended December 31, 2019 are as follows:

| | | | Number of Award Shares | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Grantees in aggregate | Date of grant | Held at January 1, 2019 | Granted during the year | Exercised during the year | Transferred to Share Scheme Trust during the year | Lapsed during the year | Held at December 31, 2019 |
| | 299 | April 1, 2019 | – | 22,466,301 | 2,431,972 | 18,566,609 | 1,467,720 | – |
| | 20,538 | July 19, 2019 | – | 20,538,000 | – | – | 1,881,000 | 18,657,000 |
| | 457 | September 4, 2019 | – | 34,991,749 | 260,028 | – | 1,374,948 | 33,356,773 |
| | 380 | November 28, 2019 | – | 20,452,981 | – | – | 692,034 | 19,760,947 |
| Total | 21,674 | | – | 98,449,031 | 2,692,000 | 18,566,609 | 5,415,702 | 71,774,720 |

Further details of movements in the Share Award Scheme are set out in Note 28 to the consolidated financial statements.

## Equity-Linked Agreements

Save as disclosed in the sections headed "Share Option Schemes" and "Share Award Scheme", no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2019.

## Directors and Senior Management

The Directors of the Company during the year ended December 31, 2019 and up to the date of the annual report were:

### Executive Directors

Lei Jun
Lin Bin
Chew Shou Zi *(appointed with effect from October 25, 2019)*

### Non-Executive Directors

Koh Tuck Lye *(resigned from the Board with effect from October 25, 2019)*
Liu Qin

### Independent Non-Executive Directors

Chen Dongsheng
Lee Ka Kit *(resigned from the Board with effect from August 23, 2019)*
Wong Shun Tak
Tong Wai Cheung Timothy *(appointed with effect from August 23, 2019)*

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them as independent.

## Biographical Details and Other Information of the Directors

The biographical details of the Directors who held office during the year ended December 31, 2019 and up to the Latest Practicable Date are as out below:

**Lei Jun** (雷軍), aged 50, is an executive Director, the Founder, the Chairman and the CEO of the Company. He is also a member of the Remuneration Committee. Lei Jun is overall responsible for the Company's strategy, company culture and key products. He oversees the senior management team. Lei Jun currently holds directorships in various subsidiaries, Consolidated Affiliated Entities and operating entities of the Group.

# DIRECTOR'S REPORT

Lei Jun is a renowned angel investor in mainland China. Lei Jun joined Kingsoft Corporation Limited (HKEx Stock Code: 3888) in 1992 and has held various senior positions in Kingsoft, including as the chairman of the board since July 2011, non-executive director since August 2008 and the CEO between 1998 and December 2007. From July 2011 to March 2018, Lei Jun was the chairman of Cheetah Mobile Inc. (NYSE ticker: CMCM). From July 2011 to August 2016, Lei Jun was the chairman of JOYY INC. (NASDAQ ticker: YY).

Lei Jun received a Bachelor's degree in Computer Science from Wuhan University (武漢大學) on July 1, 1991. He has been a member of the board of Wuhan University since November 2003. Lei Jun has also been serving as vice chairman of All-China Federation of Industry and Commerce (中華全國工商業聯合會) since November 2017 and the vice president of China Quality Association (中國質量協會) since December 2017.

Lei Jun was elected as one of the 2017 Top 10 Economic Personages of China, and one of 100 outstanding private entrepreneurs at the 40th anniversary of the China's reform and opening-up. In 2019, Lei Jun was honored with the title of "Outstanding Builders of Socialism with Chinese Characteristics" by the United Front Work Department of CPC Central Committee, the Ministry of Industry and Information Technology of People's Republic of China, the Ministry of Human Resources and Social Security of the People's Republic of China, the State Administration for Market Regulation and All-China Federation of Industry and Commerce, and was rewarded with Fudan Outstanding Contribution Award of Business Management.

**Lin Bin** (林斌), aged 52, is an executive Director, a Co-founder and Vice Chairman of the Board. He is also a member of the Nomination Committee. He is responsible for the Company's smartphone business. Lin Bin currently holds directorships in various major subsidiaries of the Group.

Before joining the Group in 2010, Lin Bin had served as an engineering director at Google Inc. between 2006 and 2010. Before this, he had worked at Microsoft Corporation from 1995 to 2006, including as an engineering director at Microsoft (China) Limited from 2003 to 2006. Prior to this, Lin Bin worked as a network engineer at ADP Inc. since May 1993.

Lin Bin has held numerous visiting and adjunct professorships, including visiting professor at Zhejiang University (浙江大學) in 2002, visiting professor at Tongji University (同濟大學) in 2002, adjunct professor at Nankai University (南開大學) from 2002 to 2005 and adjunct professor at Sun Yat-sen University (中山大學) from 2005 to 2008. He currently sits on the Board of Advisors of the Tufts University School of Engineering.

Lin Bin received a Bachelor of Science in Radio Electronics from Sun Yat-sen University (中山大學) in July 1990, and a Master of Science from Drexel University in June 1992.

**Chew Shou Zi** (周受資) (alias: Zhou Shouzi), aged 37, is an executive Director, a Senior Vice President and President of International of the Company. He is responsible for the Group's international business. Chew Shou Zi served as the CFO of the Company from August 2015 to April 2020 and became an executive Director of the Company in October 2019, and currently holds directorships in multiple member companies of the Group. He is also a director of Kingsoft Cloud Holdings Limited, a subsidiary of Kingsoft Corporation Limited (HKEx Stock Code: 3888).

Before joining the Group in July 2015, Chew Shou Zi was a partner at DST Investment Management Ltd. and worked there from August 2011 to June 2015. Prior to DST Investment Management Ltd., he worked at Goldman Sachs International from July 2006 to July 2008.

Chew Shou Zi received a Bachelor of Science in Economics from University College London in August 2006 and a Master of Business Administration from Harvard Business School in 2011.

**Liu Qin** (劉芹), former name: Liu Ya (劉雅), aged 47, is a non-executive Director and a member of the Audit Committee. Liu Qin became a director of the Company in May 2010, and he currently holds directorships in various major subsidiaries of the Company. Liu Qin co-founded and has served as managing director of Morningside Venture Capital Limited ("**MSVC**") since June 2007. The funds under MSVC's management had been the earliest investors of the Group. Before co-founding MSVC, Liu Qin served various roles including as a business development director for investment at Morningside IT Management Services (Shanghai) Co. Ltd. (晨興信息科技諮詢（上海）有限公司) from July 2000 to November 2008. He also served as a director of Xunlei Limited (NASDAQ ticker: XNET) from September 2005 to April 2020. Liu Qin has been a director of JOYY INC. (NASDAQ ticker: YY) since June 2008.

Liu Qin received a Bachelor's degree in Industrial Electrical Automation from University of Science and Technology Beijing (北京科技大學) in July 1993, and a Master of Business Administration from China Europe International Business School (中歐國際工商學院) on April 22, 2000.

**Chen Dongsheng** (陳東升), aged 62, has served as an independent non-executive Director since June 2018. He also currently serves as the chairman of both the Remuneration Committee and the Corporate Governance Committee, and a member of the Audit Committee. Chen Dongsheng has served as the chairman of Taikang Insurance Group Inc. (泰康保險集團股份有限公司) (formerly known as Taikang Life Insurance Co., Ltd (泰康人壽保險股份有限公司)) ("**Taikang**") since July 1996. He is currently the CEO of Taikang and holds various directorships within the Taikang group. Prior to this, Chen Dongsheng served as the chairman and the general manager of China Guardian Auctions Co., Ltd (中國嘉德國際拍賣有限公司) from May 1993. Prior to this, Chen Dongsheng worked as the deputy editor of the Management World (monthly), published by the Development Research Center of the State Council of China.

Chen Dongsheng has accumulated extensive corporate governance experience during his leadership in the Taikang group, as he oversaw the reform and optimization of the group's corporate governance structure. Key corporate governance initiatives implemented during Chen Dongsheng's tenure include (i) formalizing the structure, functions and accountability of the corporate governance bodies within the Taikang group, (ii) introducing board executive, audit, nomination and remuneration committees, the members of which are selected by election, and (iii) appointing independent directors.

Chen Dongsheng received a Bachelor's degree in Political Economics on July 30, 1983, and a PhD in Political Economics on June 30, 1996, both from Wuhan University (武漢大學).

# DIRECTOR'S REPORT

**Wong Shun Tak** (王舜德), aged 59, currently serves as an independent non-executive Director, the chairman of the Audit Committee, and a member of the Remuneration Committee, Corporate Governance Committee and Nomination Committee. Wong Shun Tak is a co-founder and had been the CFO of Rokid Corporation Ltd, an artificial intelligence devices design and development company. Wong Shun Tak served as an executive director and CFO of Kingsoft from October 2011 to July 2012, and also acted as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Kingsoft from April 2007 to September 2011. Wong Shun Tak has served as an independent non-executive Director and the chairman of the Audit Committee of the Company since June 2018.

Wong Shun Tak served as vice president of finance and financial controller of Alibaba Group Holding Ltd (NYSE ticker: BABA; HKEx Stock Code: 9988) from August 2007 to September 2011. During his service with Alibaba Group, he also acted as the chairman of Group Financial Control Committee of Alibaba Group.

Wong Shun Tak served as the CFO of Goodbaby Children Products Group ("**Goodbaby**") from August 2003 to August 2007, a leading juvenile product manufacturer in China. Before joining Goodbaby, Wong Shun Tak worked as the vice president of finance in IDT International Limited (HKEx Stock Code: 167) from September 2001 to July 2003.

In the past, Wong Shun Tak held key financial management positions in various multi-nationals companies, including as the financial controller of AMF Bowling, Inc. from November 1996 to March 1998 and International Distillers China Ltd. from December 1993 to October 1996. Wong Shun Tak has extensive experience in financial control, operations, strategic planning and implementation, private fund investments and exit strategies.

Wong Shun Tak received a Master's degree in Finance from the University of Lancaster in the United Kingdom and a Master's degree in Accounting from Charles Stuart University in Australia. He is also a fellow CPA member of the Hong Kong Institute of Certified Public Accountants and a fellow CPA member of Australian Society of CPAs.

**Professor Tong Wai Cheung Timothy** (唐偉章), aged 66, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Corporate Governance Committee. He joined the Group in August 2019.

Prof. Tong Wai Cheung Timothy received a Bachelor's degree in Mechanical Engineering from Oregon State University, and a Master of Science and PhD degree in the same discipline from the University of California at Berkeley. Prof. Tong Wai Cheung Timothy serves as the chairman of the Council, Hong Kong Laureate Forum, and the chairman of the Citizens Advisory Committee on Community Relations of the Independent Commission Against Corruption (ICAC). He also serves as a member of the Advisory Committee on Corruption of the ICAC and the InnoHK Steering Committee. Additionally, he has been appointed a Non-official Justice of the Peace and a member of the Chinese People's Political Consultative Conference since 2010 and 2013 respectively. Prof. Tong Wai Cheung Timothy has over 30 years of teaching, research and administrative experience in universities in the United States and Hong Kong. Prior to taking the office as president of The Hong Kong Polytechnic University from 2009 to 2018, he was a professor and dean of the School of Engineering and Applied Science at The George Washington University. Since July 2019, Prof. Tong has served as CEO of AMTD Foundation. He is a fellow of the American Society of Mechanical Engineers, the Hong Kong Academy of Engineering Sciences ("**HKAES**") and the International Thermal Conductivity Conference. He served as the president of HKAES in 2018.

Prof. Tong Wai Cheung Timothy is currently an independent non-executive director of Airstar Bank Limited, a subsidiary of the Company. He is also an independent non-executive director of Gold Peak Industries (Holdings) Limited (HKEx Stock Code: 40), a non-executive director of Freetech Road Recycling Technology (Holdings) Limited (HKEx Stock Code: 6888) and an independent non-executive director of GP Industries Limited (SGX Stock Code: G20).

# DIRECTOR'S REPORT

## Biographical Details of Senior Management

The biographical details of the senior management of the Company who held office during the Report Period and up to the Latest Practicable Date are set out below:

**Chang Cheng** (常程), aged 48, is a Vice President and is responsible for the Group's smartphone product planning. Prior to joining the Group in January 2020, Chang Cheng served as vice president of Lenovo Group Limited (HKEx Stock Code: 992) since July 2011.

Chang Cheng received a Bachelor's degree in Mathematics from Beijing Normal University (北京師範大學) in July 1993 and a PhD in Engineering from Beihang University (北京航空航天大學) in July 2000.

**Chew Shou Zi** (周受資), aged 37, is an executive Director, a Senior Vice President and President of International of the Company. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

**Cui Baoqiu** (崔寶秋), aged 50, is the Vice President and the Chairman of the Technology Committee of the Group and is responsible for technology development and research. Focusing on developing the culture of technology and engineering, Cui Baoqiu makes decisions on the technology development of the Group and promotes the recruitment, training, appointment and incentives of technical talents. Cui Baoqiu joined the Group in June 2012, and has served as the chief architect of the Company and the vice president of artificial intelligence and cloud platform. He founded and managed the Company's artificial intelligence and cloud platform team, and led the technological breakthrough in "cloud computing – big data – artificial intelligence". Prior to joining the Group in June 2012, Cui Baoqiu served as chief engineer at LinkedIn Corporation from August 2010 to June 2012. Before that, Cui Baoqiu worked as chief engineer of the core team of Yahoo Search Technology at Yahoo! Inc. from November 2006 to August 2010. Cui Baoqiu worked as senior engineer from August 2000 to July 2005, and as senior research and development manager from July 2005 to November 2006 at International Business Machines Corporation (NYSE ticker: IBM).

Cui Baoqiu received a Bachelor's degree and a Master's degree in Computer Science from Wuhan University (武漢大學) in 1991 and 1994, respectively, and a PhD in Computer Science from the State University of New York at Stony Brook in 2000.

**He Yong** (何勇), aged 46, is a Vice President and is responsible for the Group's public affairs, regional headquarters management, regional expansion and administrative management. Prior to joining the Group in 2018, He Yong served as deputy director of the Hubei Provincial Government Office in Beijing in February 2017, and has a wealth of management experience in governmental communication, public affairs, regional economy, project management and other related areas.

He Yong received a PhD in Economics from Wuhan University (武漢大學) in December 2018.

**Hong Feng** (洪鋒), aged 43, is a Co-founder and a Senior Vice President. He is currently the Chairman and CEO of Xiaomi Finance, responsible for the development of finance businesses of the Group. Prior to joining the Group in December 2010, Hong Feng worked at Google Inc. from May 2005 to December 2010, where his responsibilities included product and engineering management. From May 2001 to May 2005, Hong Feng worked at Siebel Systems (which was subsequently acquired by Oracle America, Inc.) as chief software engineer.

Hong Feng received a Bachelor's degree in Computer and Applications from Shanghai Jiao Tong University (上海交通大學) in July 1999, and a Master of Science from Purdue University in May 2001.

**Jain Manu Kumar**, aged 39, is a Vice President and the Managing Director of Xiaomi India, responsible for the Group's business in India. Jain Manu Kumar joined the Group in May 2014 and led Xiaomi's business in India. Prior to January 2014, he had co-founded Jabong.com. Between June 2007 and December 2011, Jain Manu Kumar held the position of Engagement Manager in McKinsey & Company.

Jain Manu Kumar received a Bachelor's degree in Mechanical Engineering from Indian Institute of Technology (IIT), Delhi, in 2003 and a Post Graduate Diploma in Management and Master of Business Administration from Indian Institute of Management (IIM), Calcutta, in 2007.

**Lei Jun** (雷軍), aged 50, is the Founder, the CEO of the Company, the Chairman and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

**Lin Bin** (林斌), aged 52, is a Co-founder, the Vice Chairman of the Board and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

**Liu De** (劉德), aged 46, is a Co-founder, Senior Vice President and Head of the Organization Department. He is currently responsible for the recruitment, promotion, training and evaluation of the middle and senior management of the Group, as well as the organizational structure design and approval procedures of each department. In October 2002, Liu De co-founded Beijing Xinfengrui Industrial Design Co., Ltd. (北京新鋒銳工業設計公司) and served as its executive director.

Liu De received a Bachelor's degree in Industrial Design on July 1, 1996 and a Master's degree in Mechanical Design and Theory on March 27, 2001, both from the Beijing Institute of Technology (北京理工大學). Liu De received a Master's degree in Industrial Design from Art Center College of Design, Pasadena, California, US, on April 24, 2010.

# DIRECTOR'S REPORT

**Lu Weibing** (盧偉冰), aged 44, is a Vice President, the President of China Department and the General Manager of Redmi, responsible for sales management of the China Department, and the brand strategy, product planning, production and marketing of Redmi. Before joining the Group in January 2019, Lu Weibing served as the chairman and president of Shenzhen Chenyee Technology Co., Ltd. (深圳市誠壹科技有限公司) from June 2017 to December 2018. From April 2010 to June 2017, Lu Weibing served as president at Shenzhen Gionee Communication Equipment Co., Ltd. (深圳市金立通信設備有限公司). Before this, Lu Weibing worked as general manager of the overseas department at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) from January 2008 to March 2010. Lu Weibing worked as general sales manager at KONKA Communication Co., Ltd. (康佳通信科技有限公司) from July 1998 to December 2007.

Lu Weibing received a Bachelor of Science in Chemistry from Tsinghua University (清華大學) in 1998 and an Executive Master of Business Administration from Cheung Kong Graduate School of Business (長江商學院) in 2009.

**Shang Jin** (尚進), aged 43, is a Vice President, deputy head of the Organization Department and commissar of China Department, currently responsible for the organizational development, executive development and performance appraisal. Before joining the Group in September 2014, Shang Jin co-founded and served as the CEO of Beijing Kylin Culture Co., Ltd. (北京麒麟網文化股份有限公司) (formerly known as Beijing Kylin Information Technology Co, Ltd. (北京麒麟網信息科技有限公司)) between July 2007 and February 2014. Before this, Shang Jin served as vice general manager of Beijing AmazGame Age Internet Technology Co., Ltd. (北京暢遊天下網絡技術有限公司) (subsequently listed as part of the group of Changyou.com Limited, NASDAQ ticker: CYOU) since February 2005. From November 1999 to February 2005, Shang Jin worked at Kingsoft, including as project manager, technology officer and division deputy manager.

Shang Jin has served as a director of Ourpalm Co., Ltd (北京掌趣科技股份有限公司) (Shenzhen Stock Exchange Stock Code: 300315) since February 2018.

In 2010, Shang Jin was awarded Zhongguancun's leading talent and was named one of the top 10 most influential leaders in the gaming industry of the year in 2011. Shang Jin received a Bachelor's degree in Physics from Dalian University of Technology (大連理工), in July 1998.

**Wang Chuan** (王川), aged 50, is a Co-founder, a Senior Vice President and Chief Strategy Officer of the Company. He is responsible for assisting the CEO of the Company in the management and overall planning of the Quality Committee, Technology Committee and Procurement Committee of the Group. Wang Chuan co-founded Beijing Duokan in February 2010, where he currently serves as the CEO. Wang Chuan also founded Beijing Leishitiandi Electron Technology Co., Ltd. (北京雷石天地電子技術有限公司) in June 2006 and served as the chairman. He has served as a director of iQIYI, Inc. (NASDAQ ticker: IQ) since November 2014.

Wang Chuan received a Bachelor's degree in Computer Science and Engineering from Beijing University of Technology (北京工業大學) in July 1993.

**Wang Xiang** (王翔), aged 58, is the President of the Group, responsible for the corporate functions of the Group and assisting the CEO of the Company to take charge of the business operations. He is also the acting CFO of the Company. Wang Xiang joined the Group in July 2015 and has served as a Senior Vice President, responsible for the Group's international business, legal department, intellectual property strategy and the expansion of working relationships with key partners of the Group.

Wang Xiang has over 30 years of experience in the semiconductor and communications industry. He previously served various roles at Qualcomm between July 2002 and June 2015, including as the global senior vice president and president of the Greater China region, overseeing the business of Qualcomm in the Greater China region and managed Qualcomm Semiconductor Division in China. Prior to this, he has held key positions in sales and marketing at various leading global companies including Motorola Inc., Lucent Technologies, Inc. and Agere Systems Inc.

Wang Xiang received a Bachelor's degree in Electronic Engineering from Beijing University of Technology (北京工業大學) in July 1984.

**Yan Kesheng** (顏克勝), aged 49, is a Vice President, the Chairman of the Quality Committee, the deputy head of the Organization Department and deputy dean of Qinghe University. He is responsible for quality control of all products and services, the improvement of corporate organization, and talent development of the Group. Before joining the Group in October 2010, Yan Kesheng was a senior mechanical design manager at Star Shine Tech Co., Ltd. (星耀無線科技有限公司) from October 2008 to October 2010. From October 2002 to October 2008, Yan Kesheng worked as the chief structural design engineer and project leader at Motorola Technology Co., Ltd. (摩托羅拉科技有限公司). Before this, Yan Kesheng worked as a senior mechanical engineer and design team leader at Vtech Telecommunications Limited (偉易達通訊設備有限公司) from December 1998 to October 2002 and as the chief engineer at Hubei Yichang Nanyuan Vehicle Manufacturing Co., Ltd. (湖北宜昌南苑車輛製造有限公司) from July 1992 to November 1998.

Yan Kesheng received a Bachelor's degree in Agricultural Machinery Manufacturing and Repair from Hefei University of Technology (合肥工業大學) (formerly known as Anhui Institute of Technology (安徽工學院)) in July 1992.

**Zhang Feng** (張峰), aged 50, is a Vice President, Chief of Staff of the Group, the Chairman of the Procurement Committee and the General Manager of the Laptop Computer department. He is responsible for assisting the CEO of the Company in formulating the strategic planning of the Group, overseeing the execution of strategies in various business departments, integrating the procurement needs of the various departments, improving procurement capabilities, optimizing procurement processes and efficiency. Zhang Feng has more than 20 years of experience in

# DIRECTOR'S REPORT

the smartphone and telecommunications industry. Prior to joining the Group in September 2016, Zhang Feng founded Jiangsu Zimi Electronic Technology Co., Ltd. (江蘇紫米電子技術有限公司), which became one of the Company's ecosystem partners. He held various positions in the Inventec group between September 1993 and February 2012, including as the director of research and development and the general manager of the Inventec group's Nanjing branch.

Zhang Feng received a Bachelor's degree in Radio Electronics from Shanghai University of Science and Technology (上海科學技術大學) (now known as Shanghai University (上海大學)) in July 1991.

## Director's Service Contracts and Appointment Letters

### 1. Executive Directors

Lei Jun and Lin Bin have each entered into a service contract with our Company on June 19, 2018, and Chew Shou Zi has entered into a service contract with our Company on October 25, 2019. The initial term of their service contracts shall commence from the date of his appointment and continue for a period of three years after or until the third annual general meeting of the Company since the Listing Date, whichever is earlier (subject always to re-election as and when required under the Articles of Association), until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than one months' prior notice in writing. No annual director's fees are payable to the executive Directors under the current arrangement.

### 2. Non-executive Directors and independent non-executive Directors

Each of Liu Qin and Koh Tuck Lye has entered into an appointment letter with our Company on June 19, 2018. The initial term for their appointment letters shall commence from the date of their appointments and shall continue for three years after or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing. No annual director's fees are payable to the non-executive Directors under the current arrangement. Koh Tuck Lye has resigned as a non-executive Director with effect from October 25, 2019.

Each of Chen Dongsheng, Lee Ka Kit and Wong Shun Tak has entered into an appointment letter with our Company on June 19, 2018, and Tong Wai Cheung Timothy has entered into an appointment letter with our Company on August 23, 2019. The initial term for their appointment letters shall be three years from the date of their appointment or until the third annual general meeting of the Company since the Listing Date, whichever is sooner, (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive an annual director's fee of HK$500,000, which in each case has been recommended by the Remuneration Committee and approved by the Board with reference to the independent non-executive Director's qualifications, experience and responsibilities with the Company. Lee Ka Kit has resigned as an independent non-executive Director with effect from August 23, 2019.

None of the Directors (including the Directors proposed for re-election at the annual general meeting) have a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

As of December 31, 2019, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

# DIRECTOR'S REPORT

### 1. Interest in Shares and underlying shares of the Company

| Name of Director or chief executive | Nature of interest[6] | Relevant company | Number and class of securities | Approximate percentage of shareholding in the relevant class of Shares[1] |
|---|---|---|---|---|
| Lei Jun[2] | Beneficiary, founder and settlor of a Trust(L) | ARK Trust (Hong Kong) Limited | 4,254,616,928 Class A Shares | 64.15% |
| | | | 2,406,886,534 Class B Shares | 13.77% |
| | Interest in controlled corporations(L) | Smart Mobile Holdings Limited | 4,254,616,928 Class A Shares | 64.15% |
| | | | 2,264,455,542 Class B Shares | 12.96% |
| | Interest in controlled corporations(L) | Smart Player Limited | 59,221,630 Class B Shares | 0.34% |
| | Interest in controlled corporations(L) | Team Guide Limited | 83,209,362 Class B Shares | 0.48% |
| Lin Bin[3] | Trustee, beneficiary and settlor of a trust(L) | Bin Lin Trust | 1,411,330,466 Class A Shares | 21.28% |
| | | | 20,665,097 Class B Shares | 0.12% |
| | Beneficial owner(L) | | 966,000,000 Class A Shares | 14.57% |
| | | | 49,920,210 Class B Shares | 0.29% |
| | Interest in controlled corporations(L) | Apex Star LLC | 294,317,837 Class B Shares | 1.68% |
| | Interest in controlled corporations(L) | Bin Lin and Daisy Liu Family Foundation | 7,686,600 Class B Shares | 0.04% |
| Chew Shou Zi[4] | Beneficial owner(L) | | 44,409,487 Class B Shares | 0.25% |
| | Interest in controlled corporations(L) | Tamarind Limited | 24,576,749 Class B Shares | 0.14% |
| Liu Qin[5] | Interest in controlled corporations(L) | Morningside China TMT Fund I, L.P. | 1,553,568,120 Class B Shares | 8.89% |
| | Interest in controlled corporations(L) | Morningside China TMT Fund II, L.P. | 266,382,397 Class B Shares | 1.52% |

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2019.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,254,616,928 Class A Shares and the 2,264,455,542 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 83,209,362 Class B Shares held by Team Guide Limited under the SFO.

(3) Lin Bin holds 1,411,330,466 Class A Shares and 20,665,097 Class B Shares as trustee of the Bin Lin Trust, which was established by Lin Bin (as the settlor) for the benefit of Lin Bin and his family. Apex Star LLC and BIN LIN AND DAISY LIU FAMILY FOUNDATION are wholly-owned by Lin Bin. Lin Bin therefore is deemed to be interested in 294,317,837 Class B Shares held by Apex Star LLC and 7,686,600 Class B Shares held by BIN LIN AND DAISY LIU FAMILY FOUNDATION, in addition to the 966,000,000 Class A Shares and 49,920,210 Class B Shares held by himself directly, under the SFO.

(4) Tamarind Limited is wholly-owned by Chew Shou Zi. Accordingly, Chew Shou Zi is deemed to be interested in the 24,576,749 Class B Shares held by Tamarind Limited under the SFO. Chew Shou Zi directly holds 18,986,236 Class B Shares and has interests in share options granted under the Pre-IPO ESOP to subscribe for 25,423,251 Class B Shares.

(5) Liu Qin is entitled to exercise or control the exercise of one-third of the voting power at general meetings of TMT General Partner Ltd. and is therefore deemed to be interested in the Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P., which respectively controls Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P. (the "**Morningside Funds**"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.

(6) The letter "L" denotes the person's long position in the shares.

# DIRECTOR'S REPORT

## 2. Interest in associated corporations

| Name of Director or chief executive | Nature of interest | Associated corporations | Approximate percentage of shareholding[1] |
|---|---|---|---|
| Lei Jun | Beneficial owner | Xiaomi Finance[2] | 42.07% |
| | Interest in controlled corporations(L) | Parkway Global Holdings Limited[3] | 100% |
| | Interest in controlled corporations(L) | Sunrise Vision Holdings Limited[3] | 100% |
| | Interest in controlled corporations(L) | Smart Mobile Holdings Limited[3] | 100% |
| | Interest in controlled corporation(L) | Shenzhen Pineapple Games Co., Ltd. (深圳市菠蘿遊戲有限公司) | 0% |
| | Interest in controlled corporation(L) | Zimi International Incorporation[4] | 9.43% |

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of December 31, 2019.

(2) Xiaomi Finance is a subsidiary of the Company and therefore Xiaomi Finance is an associated corporation of the Company. Lei Jun is entitled to receive up to 42,070,000 shares in Xiaomi Finance pursuant to options granted to him under the XMF Share Option Scheme I (subject to the relevant vesting conditions).

(3) Smart Mobile Holdings Limited, the holding company of the Company, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited, and is deemed to be interested in the 4,254,616,928 Class A Shares and 2,264,455,542 Class B Shares held by Smart Mobile Holdings Limited under the SFO. Therefore, Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited and Parkway Global Holdings Limited are associated corporations of the Company.

(4) As of December 31, 2019, the Company held 21.25% of the equity interest of Zimi International Incorporation, and Zimi International Incorporation is therefore an associated corporation of the Company. Lei Jun is ultimately interested in Zimi International Incorporation as to approximately 9.43% (being 9,803,900 ordinary shares).

Save as disclosed above, as at December 31, 2019, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in this annual report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended December 31, 2019.

## Permitted Indemnity Provision

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

Such permitted indemnity provision has been in force for the year ended December 31, 2019. The Company has taken out liability insurance for our Directors for the year ended December 31, 2019.

## Directors' Rights to Acquire Shares or Debentures

Save as disclosed in this annual report, neither the Company nor its subsidiaries were a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right at any time during the year ended December 31, 2019.

## Directors' Interests in Competing Business

Lei Jun is a founding partner of Shunwei Capital ("**Shunwei**"), which operates investment funds specializing in incubation, start-ups, early to mid-stage and growth capital investments in Internet and technology industries. While Shunwei may acquire non-controlling interests in certain business that operate in technology and Internet sectors similar to those in which our Group operates, Shunwei is a pure capital investment company, and generally has no management or shareholding control over any of its investee companies. We therefore do not believe that Shunwei competes in any material way with our Group.

# DIRECTOR'S REPORT

Save as disclosed in this annual report and except for the interests of the Controlling Shareholders in the Group, during the year ended December 31, 2019, neither the Controlling Shareholders nor any of the Directors had any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with the Group's business, which would require disclosure under Rule 8.10 of the Listing Rules.

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

As of December 31, 2019, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of Substantial Shareholder | Nature of interest | Number of Shares | Approximate percentage of shareholding in the relevant class of Shares[1] |
|---|---|---|---|
| **Class A Shares** | | | |
| Smart Mobile Holdings Limited[2] | Beneficial interest | 4,254,616,928 | 64.15% |
| Sunrise Vision Holdings Limited[2] | Interest in controlled corporations | 4,254,616,928 | 64.15% |
| Parkway Global Holdings Limited[2] | Interest in controlled corporations | 4,254,616,928 | 64.15% |
| ARK Trust (Hong Kong) Limited[2] | Trustee | 4,254,616,928 | 64.15% |
| **Class B Shares** | | | |
| Smart Mobile Holdings Limited[2] | Beneficial interest | 2,264,455,542 | 12.96% |
| Sunrise Vision Holdings Limited[2] | Interest in controlled corporations | 2,323,677,172 | 13.30% |
| Parkway Global Holdings Limited[2] | Interest in controlled corporations | 2,323,677,172 | 13.30% |
| ARK Trust (Hong Kong) Limited[2] | Trustee | 4,835,967,052 | 27.67% |
| Shi Jianming[4, 5] | Interest in controlled corporations | 1,830,263,997 | 10.47% |
| Lou Yiting[5] | Interest of spouse | 1,830,263,997 | 10.47% |
| Ni Yuanyuan[6] | Interest of spouse | 1,819,950,517 | 10.41% |
| Landmark Trust Switzerland SA[4, 5] | Interest in controlled corporations | 1,819,950,517 | 10.41% |
| Morningside-Springfield Group Limited[3, 4] | Interest in controlled corporations | 1,819,950,517 | 10.41% |

| Name of Substantial Shareholder | Nature of interest | Number of Shares | Approximate percentage of shareholding in the relevant class of Shares[1] |
|---|---|---|---|
| Morningside Group International Limited[3, 4] | Interest in controlled corporations | 1,819,950,517 | 10.41% |
| Morningside Ventures Limited[3, 4] | Interest in controlled corporations | 1,819,950,517 | 10.41% |
| Morningside Venture (VII) Investments Limited[3, 4] | Interest in controlled corporations | 1,819,950,517 | 10.41% |
| TMT General Partner Ltd.[3, 4] | Interest in controlled corporations | 1,819,950,517 | 10.41% |
| Morningside China TMT GP, L.P.[3] | Interest in a controlled corporation | 1,553,568,120 | 8.89% |
| Morningside China TMT Fund I, L.P.[3] | Beneficial interest | 1,553,568,120 | 8.89% |

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2019.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,254,616,928 Class A Shares and the 2,264,455,542 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 83,209,362 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 2,429,080,518 Class B shares held by the trusts.

(3) TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P. which respectively control Morningside China TMT Fund I, L.P., which holds 1,553,568,120 Class B Shares, and Morningside China TMT Fund II, L.P, which holds 266,382,397 Class B Shares. Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.

(4) Each of Liu Qin (our non-executive Director), Shi Jianming and Morningside Venture (VII) Investments Limited is entitled to exercise or control the exercise of one-third of the voting power at general meetings of TMT General Partner Ltd. and is therefore deemed to be interested in the Shares in which TMT General Partner Ltd. is interested. Morningside Ventures Limited is indirectly 100% held through a series of 100% owned holding companies by the Landmark Trust Switzerland SA as trustee of a discretionary trust established by Mdm. Chan Tan Ching Fen for the benefit of certain members of her family and other charitable objects. None of the discretionary objects of this trust are Directors.

(5) Lou Yiting is deemed to be interested in these Shares through the interest of her spouse, Shi Jianming.

(6) Ni Yuanyuan is deemed to be interested in these Shares through the interest of her spouse, Liu Qin (our non-executive Director). The interests of Liu Qin is disclosed in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations".

# DIRECTOR'S REPORT

Save as disclosed above, as of December 31, 2019, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## Contracts with Controlling Shareholders

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the year ended December 31, 2019.

## Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended December 31, 2019.

## Connected Transactions

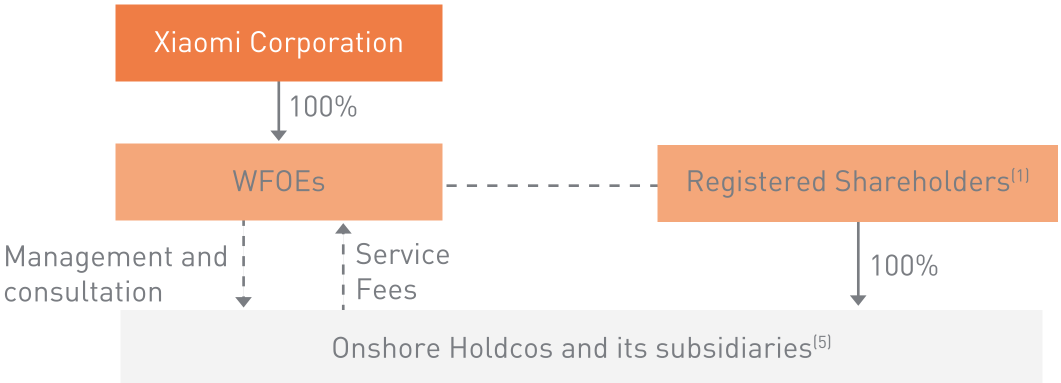
We have entered into a number of continuing agreements and arrangements with our connected persons in our ordinary and usual course of business, which constitute continuing connected transactions under the Listing Rules. We set out below details of the continuing connected transactions for our Group, in compliance with the requirements of Chapter 14A of the Listing Rules.

### 1. Contractual Arrangements

#### Contractual Arrangements in Place

The Company has entered into a series of Contractual Arrangements with the Consolidated Affiliated Entities and the Registered Shareholders, pursuant to which our Company obtained effective control over and had the right to receive all economic benefits from the business and operations of the Consolidated Affiliated Entities. In this regard, our Directors consider that our Company can consolidate the financial results of our Consolidated Affiliated Entities into our Group's financial information as if they were our Company's subsidiaries.

The following simplified diagram illustrates the Contractual Arrangements that were in place as of December 31, 2019:




Notes:

(1) Registered Shareholders refer to the registered shareholders of the Onshore Holdcos, namely (i) Beijing Wali Culture; (ii) Rigo Design; (iii) Xiaomi Inc.; (iv) Beijing Duokan; (v) Beijing Wali Internet; (vi) Xiaomi Pictures; (vii) Beijing Electronic Software; and (viii) Youpin Information Technology.

(i) Beijing Wali Culture is owned by Lei Jun (雷軍) as to 90% and Shang Jin (尚進) as to 10%.

(ii) Rigo Design is owned by Zhu Yin (朱印) as to 61% and Li Jiong (李炯) as to 39%.

(iii) Xiaomi Inc. is owned by Lei Jun as to 77.80%, Li Wanqiang (黎萬强) as to 10.12%, Hong Feng (洪鋒) as to 10.07% and Liu De (劉德) as to 2.01%.

(iv) Beijing Duokan is owned by Wang Chuan (王川) as to 61.75% and Lei Jun as to 38.25%.

(v) Beijing Wali Internet is owned by Lei Jun as to 10%, Liu Yang (劉泱) as to 65%, Liang Qiushi (梁秋實) as to 14%, Liu Jingyan (劉景岩) as to 6%, Yuan Bin (袁彬) as to 3%, and Nan Nan (南楠) as to 2%.

(vi) Xiaomi Pictures is owned by Li Wanqiang as to 87.92%, Hong Feng as to 10.07% and Liu De as to 2.01%.

(vii) Beijing Electronic Software is owned by Lei Jun (雷軍) as to 90% and Hong Feng (洪鋒) as to 10%.

(viii) Youpin Information Technology is owned by Lei Jun (雷軍) as to 70%, Hong Feng (洪鋒) as to 10%, Liu De (劉德) as to 10% and Li Wanqiang (黎萬强) as to 10%.

(2) "→" denotes direct legal and beneficial ownership in the equity interest.

# DIRECTOR'S REPORT

(3) "----->" denotes contractual relationship.

(4) "----"denotes the control by WFOEs over the Registered Shareholders and the Onshore Holdcos through (i) powers of attorney to exercise all shareholders' rights in the Onshore Holdcos, (ii) exclusive options to acquire all or part of the equity interests in the Onshore Holdcos and (iii) equity pledges over the equity interests in the Onshore Holdcos.

(5) These include certain companies which do not currently carry out any business operations but are intended to carry out businesses which are subject to foreign investment restrictions in accordance with the Guidance Catalog of Industries for Foreign Investment.

A brief description of each of the specific agreements that comprise the Contractual Arrangements entered into by each of the WFOEs and the Onshore Holdcos is set out as follows:

*a) Exclusive Business Cooperation Agreements*

Under the exclusive business cooperation agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, between the Onshore Holdcos and the WFOEs (the "**Exclusive Business Cooperation Agreements**"), pursuant to which, in exchange for a monthly service fee, the Onshore Holdcos agreed to engage the WFOEs as its exclusive provider of technical support, consultation and other services, including the following services:

(i) the use of any relevant software legally owned by the WFOEs;

(ii) development, maintenance and updating of software in respect of the Onshore Holdcos' business;

(iii) design, installation, daily management, maintenance and updating of network systems, hardware and database design;

(iv) providing technical support and staff training services to relevant employers of the Onshore Holdcos;

(v) providing assistance in consultancy, collection and research of technology and market information (excluding market research business that wholly foreign owned enterprises are prohibited from conducting under the laws of mainland China);

(vi) providing business management consultation;

(vii) providing marketing and promotional services;

(viii) providing customer order management and customer services;

(ix) transfer, leasing and disposal of equipment or properties; and

(x) other relevant services requested by the Onshore Holdcos from time to time to the extent permitted under the laws of mainland China.

Under the Exclusive Business Cooperation Agreements, the service fee shall consist of 100% of the total consolidated profit of the Onshore Holdcos, after the deduction of any accumulated deficit of the Consolidated Affiliated Entities in respect of the preceding financial year(s), operating costs, expenses, taxes and other statutory contributions and subject to any necessary adjustment by the WFOEs of the scope and amount of service fees according to the PRC tax law and practices.

*b) Exclusive Option Agreements*

Under the exclusive option agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, among the Onshore Holdcos, the WFOEs and the Registered Shareholders (the "**Exclusive Option Agreements**"), pursuant to which the WFOEs have the rights to require the Registered Shareholders to transfer any or all their equity interests in the Onshore Holdcos to the WFOEs and/or a third party designated by it, in whole or in part at any time and from time to time, for considerations equivalent to the respectively outstanding loans owed to the Registered Shareholders (or part of the loan amounts in proportion to the equity interests being transferred) or, if applicable, for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. The Exclusive Option Agreements shall remain effective unless terminated in the event that the entire equity interests held by the Registered Shareholders in the Onshore Holdcos have been transferred to the WFOEs or their appointee(s).

*c) Equity Pledge Agreements*

Under the equity pledge agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, entered into between the WFOEs, the Registered Shareholders and the Onshore Holdcos, pursuant to which the Registered Shareholders agreed to pledge all their respective equity interests in the Onshore Holdcos that they own, including any interest or dividend paid for the shares, to the WFOEs as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts. The pledge in respect of the Onshore Holdcos takes effect upon the completion of registration with the relevant administration for industry and commerce and shall remain valid until after all the contractual obligations of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully performed and all the outstanding debts of the Registered Shareholders and the Onshore Holdcos under the relevant Contractual Arrangements have been fully paid.

# DIRECTOR'S REPORT

*d) Powers of attorney*

The Registered Shareholders executed powers of attorney on December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, (the "**Powers of Attorney**") pursuant to which the Registered Shareholders irrevocably appointed the WFOEs and their designated persons (including but not limited to Directors and their successors and liquidators replacing the Directors but excluding those non-independent or who may give rise to conflict of interests) as their attorneys-in-fact to exercise on their behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that they have in respect of their equity interests in the Onshore Holdcos. The Powers of Attorney shall remain effective for so long as each shareholder holds equity interest in the Onshore Holdco.

*e) Loan Agreements*

In relation to Beijing Wali Culture, Xiaomi Inc., Beijing Electronic Software and Youpin Information Technology only, the relevant WFOEs and their Registered Shareholders entered into loan agreements dated December 1, 2017, April 11, 2018, April 17, 2018 and June 4, 2018, respectively, pursuant to which the relevant WFOEs agreed to provide loans to the Registered Shareholders, to be used exclusively as investment in the relevant Onshore Holdcos. The term of each loan commences from the date of the agreement and ends on the date the lender exercises its exclusive call option under the relevant exclusive option agreement, or when certain defined termination events occur, such as if the lender sends a written notice demanding repayment to the borrower, or upon the default of the borrower, whichever is earlier.

Save as disclosed above, there were no other new contractual arrangements entered into, renewed and/or reproduced between our Group and our Onshore Holdcos and/or Consolidated Affiliated Entities during the year ended December 31, 2019. There was no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended December 31, 2019.

For the year ended December 31, 2019, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2019, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of the Consolidated Affiliated Entities amounted to RMB7,145 million for the year ended December 31, 2019, representing an increase by 61.9% from RMB4,412 million for the year ended December 31, 2018. For the year ended December 31, 2019, the revenue the Consolidated Affiliated Entities accounted for approximately 3.5% of the revenue of our Group (2018: 2.5%).

**Reasons for Adopting the Contractual Arrangements**

Our (i) operation of online culture business; (ii) Internet audio-visual program service; (iii) Internet publication business and (iv) news business conducted by our Consolidated Affiliated Entities are considered as "prohibited" under the Guidance Catalog of Industries for Foreign Investment (the "**Catalog**") where foreign investment is strictly prohibited (collectively, the "**Prohibited Business**"). Our (i) e-commerce marketplace business; (ii) cloud storage service and other value-added telecommunication service business; and (iii) resales of mobile communication products operated by our Consolidated Affiliated Entities are considered as "restricted" under the Catalog where foreign investors are restricted from holding more than 50% equity interests in companies providing such services or shall meet certain qualification requirements (collectively, the "**Restricted Business**", together with the Prohibited Business, the "**Relevant Businesses**"). For details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements — Qualification Requirements under the FITE Regulations" and "Contractual Arrangements — Development in Legislation on Foreign Investment in Mainland China" on pages 281 to 282 and pages 293 to 298 of the Prospectus. Since investment in the Relevant Businesses in which we currently and may operate are subject to restrictions under current mainland China laws and regulations, as advised by our PRC legal adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in mainland China subject to foreign investment restrictions, we would gain effective control over, and have the right to receive all the economic benefits generated by the Relevant Businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

Our Directors believe that the Contractual Arrangements are fair and reasonable because: (i) the Contractual Arrangements were freely negotiated and entered into between the WFOEs and our Consolidated Affiliated Entities and the Registered Shareholders; (ii) by entering into the exclusive business cooperation agreements with the WFOEs, which are mainland China subsidiaries of our Company, our Consolidated Affiliated Entities will enjoy better economic and technical support from us, as well as a better market reputation after the Listing, and (iii) a number of other companies use similar arrangements to accomplish the same purpose.

**Risks relating to the Contractual Arrangements**

The Company believes the following risks are associated with the Contractual Arrangements, including:

- the PRC government may find that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, which may subject us to severe penalties or be forced to relinquish our interests in those operations;

# DIRECTOR'S REPORT

- substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法) and how it may impact the viability of our current corporate structure, corporate governance and business operations;

- the Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities and the Registered Shareholders may fail to perform their obligations under the Contractual Arrangements;

- we may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could render us unable to conduct some or all of our business operations and constrain our growth;

- the Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and any additional taxes could substantially reduce our consolidated profit and value of your investment;

- the equity holders, directors and executive officers of the Consolidated Affiliated Entities, as well as our employees who execute other strategic initiatives, may have potential conflicts of interest with our Company;

- certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws and regulations; and

- our exercise of the option to acquire equity ownership of our Consolidated Affiliated Entities may subject us to certain limitations and substantial costs.

Further details of these risks are set out in the section headed "Risk Factors — Risks Relating to Our Contractual Arrangements" on pages 86 to 93 of the Prospectus.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the Contractual Arrangements and our compliance with the Contractual Arrangements:

- major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities, where necessary, have been submitted to our Board, if necessary, for review and discussion on an occurrence basis;

- our Board has reviewed the overall performance of and compliance with the Contractual Arrangements for the year ended December 31, 2019;

- our Company has disclosed the overall performance and compliance with the Contractual Arrangements in our annual reports; and

- our Company has engaged external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues and matters arising from the Contractual Arrangements.

**Requirement related to Contractual Arrangements (other than relevant foreign ownership restrictions) as of December 31, 2019**

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

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

- we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;

- we operate and manage the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and

- we have registered a number of domain names overseas for the purpose of promoting our products and services.

# DIRECTOR'S REPORT

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

**Listing Rules Implications and Waivers from the Stock Exchange**

For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person," the Consolidated Affiliated Entities will be treated as our Company's wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our Company's "connected persons". Therefore, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company.

In view of the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

(a) no change to the Contractual Arrangements without independent non-executive Directors' approval;

(b) no change to the agreements governing the Contractual Arrangements without independent Shareholders' approval;

(c) the Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities;

(d) the Contractual Arrangements may be renewed and/or reproduced without obtaining the approval of our Shareholders: (i) upon the expiry of the existing arrangements, (ii) in connections with any changes to the Registered Shareholders or directors of the Consolidated Affiliated Entities, or (iii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise or operating company (including branch company), engaging in a business similar or relating to those of our Group when such renewal and/or reproduction is justified by business expediency and on substantially the same terms and conditions as the existing Contractual Arrangements; and

(e) we will disclose details relating to the Contractual Arrangements on an on-going basis.

### Confirmation from Independent Non-executive Directors

The Company's independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that:

(i) the transactions carried out during the year ended December 31, 2019 have been entered into in accordance with the relevant provisions of the Contractual Arrangements;

(ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group during the year ended December 31, 2019; and

(iii) any new contracts entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the year ended December 31, 2019 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

### Confirmations from the Company's Independent Auditor

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid Contractual Arrangements:

(i) nothing has come to their attention that causes the Auditor to believe that the disclosed transactions under the Contractual Arrangements have not been approved by the Board;

(ii) nothing has come to their attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements under the Contractual Arrangements governing such transactions; and

(iii) no dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of their equity interests which were not otherwise subsequently assigned or transferred to our Group.

A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

# DIRECTOR'S REPORT

## 2. Other Connected Transactions

As disclosed in the Prospectus, the following transactions of the Group constituted continuing connected transactions for the Company for the year ended December 31, 2019.

### (1) The XMF Framework Agreement

On June 18, 2018, our Company (for itself and on behalf of our Group) and Xiaomi Finance Inc. ("**Xiaomi Finance**", together with its subsidiaries from time to time, the "**Xiaomi Finance Group**") (for itself and on behalf of the Xiaomi Finance Group) entered into a framework agreement (the "**XMF Framework Agreement**"), pursuant to which our Group (other than the Xiaomi Finance Group) ("**XM Group**") and the Xiaomi Finance Group shall provide to each other or by one to the other, (i) supply of products; (ii) data sharing and collaboration; (iii) intellectual property licensing; (iv) payment and settlement services; (v) marketing services; (vi) comprehensive support services; and (vii) financial services. Such arrangements have significant strategic advantages to our Group as a whole, particularly in terms of resources optimization and allocation, and the efficiency of intra-group coordination may also achieve considerable cost-savings to our Group as a whole.

Among all the transactions under the XMF Framework Agreement, (i) data sharing and collaboration; (ii) intellectual property licensing; (iii) provision of marketing services by the Xiaomi Finance Group to XM Group; (iv) provision of comprehensive support services by the Xiaomi Finance Group to XM Group and (v) provision of financial services by the Xiaomi Finance Group to XM Group are fully-exempted continuing connected transactions under Chapter 14A of the Listing Rules.

The annual cap and actual transaction amounts for the non-exempted continuing connected transactions under the XMF Framework Agreement for the year ended December 31, 2019 are set out as follows:

| No. | Transactions | Annual cap for the year ended December 31, 2019 (RMB million) | Actual transaction amounts for the year ended December 31, 2019 (RMB million) |
|---|---|---|---|
| 1. | Supply of products by XM Group to the Xiaomi Finance Group | **621** | **6** |
| 2. | Provision of payment and settlement services by the Xiaomi Finance Group to XM Group | **250** | **26** |
| 3. | Provision of marketing services by XM Group to the Xiaomi Finance Group | **543** | **14** |

| No. | Transactions | Annual cap for the year ended December 31, 2019 (RMB million) | Actual transaction amounts for the year ended December 31, 2019 (RMB million) |
|---|---|---|---|
| 4. | Provision of comprehensive support services by XM Group to the Xiaomi Finance Group | **173** | **87** |
| 5. | Provision of financial services by XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans) | **14,950** | **6,446** |

The XMF Framework Agreement is for a term of three years from January 1, 2018 to December 31, 2020 (both days inclusive).

We have agreed to treat members of the Xiaomi Finance Group as connected subsidiaries (as defined in Rule 14A.16 of the Listing Rules) and thus the intra-group transactions involving XM Group and the Xiaomi Finance Group under the XMF Framework Agreement will constitute connected transactions under the Listing Rules.

**(2) The SmartMi Framework Agreement**

On June 18, 2018, our Company (for itself and on behalf of our Group) and SmartMi International Ltd ("**SmartMi**", together with its subsidiaries from time to time, the "**SmartMi Group**") (for itself and on behalf of the SmartMi Group) entered into the SmartMi Framework Agreement, pursuant to which our Group shall purchase, and the SmartMi Group shall supply, smart hardware products such as air purifiers and humidifiers. Our Group shall sell such products through its platforms and pay a certain amount of profit derived from such sale to the SmartMi Group. Through collaboration with SmartMi, our ecosystem partner, we are able to launch a successful suite of air purifiers and related IoT devices that form an important component of our ecosystem.

The above continuing connected transaction will be for a term of three years from January 1, 2018 to December 31, 2020 (both days inclusive).

SmartMi is an associate of Koh Tuck Lye (as defined in Rule 14A.12A(1)(c) of the Listing Rules), a former non-executive Director. On October 25, 2019, Koh Tuck Lye resigned from his position as non-executive Director and SmartMi ceased to be a connected person of the Company. Therefore, effective as of October 25, 2019, the transactions under the SmartMi Framework Agreement no longer constitute connected transactions under the Listing Rules.

# DIRECTOR'S REPORT

The annual cap for the year ended December 31, 2019 is RMB6,500 million, and the actual transaction amount for the year up to and including October 25, 2019 was approximately RMB3,188 million.

### Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the continuing connected transactions outlined above, and confirmed that such continuing connected transactions had been entered into:

(i) in the ordinary and usual course of business of our Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### Confirmations from the Company's Independent Auditor

The Auditor has performed the relevant procedures regarding the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The Auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2019:

(i) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to the Auditor's attention that causes the Auditor to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to the Auditor's attention that causes the Auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) nothing has come to the Auditor's attention that causes the Auditor to believe that such continuing connected transactions have exceeded the annual caps as set by the Company.

Save as disclosed in this annual report, during the year ended December 31, 2019, the Company had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended December 31, 2019.

## Major Customers and Suppliers

For the year ended December 31, 2019, the five largest customers of the Group accounted for approximately 21.8% of the Group's total revenues while the largest customer of the Group accounted for approximately 12.1% of the Group's total revenues. In addition, for the year ended December 31, 2019, the five largest suppliers of the Group accounted for approximately 27.0% of the Group's total purchase amounts while the largest supplier for the years ended December 31, 2019 accounted for approximately 9.0% of our total purchase amount.

None of our Directors, their respective associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest customers and suppliers during the year ended December 31, 2019 and up to the Latest Practicable Date.

## Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

## Tax Relief

The Company is not aware of any tax relief available to the Shareholders by reason of their holding of the Company's securities.

## Weighted Voting Rights

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

# DIRECTOR'S REPORT

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

As of December 31, 2019, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,254,616,928 Class A Shares, representing approximately 50.8% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 2,377,330,466 Class A Shares, representing approximately 28.4% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held on behalf of Lin Bin and his family members by Lin Bin as trustee of the Bin Lin Trust.

Class A Shares may be converted into Class B Shares on a one to one ratio. As of December 31, 2019, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 6,631,947,394 Class B Shares, representing approximately 38.0% of the total number of issued and outstanding Class B Shares or 27.5% of the issued share capital of the Company.

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

(i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of the Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;

(ii) when the Class A Shareholders have transferred to another person the beneficial ownership of, or economic interest in, all of the Class A Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;

(iii) where a vehicle holding the Class A Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules; or

(iv) when all of the Class A Shares have been converted to Class B Shares.

## Corporate Governance

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 98 to 117 of this annual report.

## Environmental Policies and Performance

The Company attaches great importance to environmental protection and resource conservation, and continuously pays attention to the impact of its business operations on the environment. The Company advocates the concept of green office and green product by incorporating it into the product life cycle, while focusing on improving the performance of resource utilization and emission management. At the same time, as a core element in the value chain, the Company hopes to work with more peers to create a green value chain.

For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report on pages 118 to 176 of this annual report.

## Final Dividend

The Board has resolved not to declare any final dividend for the year ended December 31, 2019.

## Use of Net Proceeds from Listing

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 and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes depending on actual business needs.

# DIRECTOR'S REPORT

As of December 31, 2019, the Group had utilized the net proceeds as set out in the table below:

| | Net proceeds from Global Offering (HK$ million) | Unutilized amount as of December 31, 2018 (HK$ million) | Utilization as of December 31, 2019 (HK$ million) | Unutilized amount as of December 31, 2019 (HK$ million) |
|---|---|---|---|---|
| Research and development to develop core in-house products | 8,268.3 | 6,074.7 | 8,268.3 | — |
| Investments to expand and strengthen ecosystem | 8,268.3 | 7,840.0 | 3,768.0 | 4,500.3 |
| Global expansion | 8,268.3 | 1,323.5 | 8,268.3 | — |
| Working capital and other general corporate purposes | 2,756.1 | — | N/A | N/A |

## Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. As of December 31, 2019, the Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak. Mr. Wong Shun Tak is the chairman of the Audit Committee.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2019. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the Auditor.

## Material Litigation

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2019 nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

## Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as of December 31, 2019, the Company has maintained the prescribed percentage of public float under the Listing Rules.

## Compliance with Relevant Laws and Regulations

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material aspects.

## Auditor

The consolidated financial statements of the Group have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the annual general meeting.

## Events after December 31, 2019

Save as disclosed in this annual report, there has been no other significant event that might affect the Group since December 31, 2019 and up to the Latest Practicable Date.

By order of the Board
**Lei Jun**
*Chairman*

Hong Kong, March 31, 2020

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

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

The Board will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest development.

Save for code provision A.2.1 of the CG Code, the Company has complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules during the Report Period. Key corporate governance principles and practices of the Company as well as details relating to the foregoing deviation are summarized in the sections below.

## Compliance with the Model Code for Securities Transactions by Directors

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

To supplement the Model Code, the Company has also put in place a disclosure of information policy for the handling and disclosure of inside information. The policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in monitoring information disclosure and responding to enquiries. Further, control procedures have been implemented to ensure that the unauthorized access and use of inside information is strictly prohibited.

## Board of Directors

### Board Composition

As at the Latest Practicable Date, the Board comprises the following Directors:

Executive Directors
Lei Jun *(Chairman of the Board and Chief Executive Officer)*
Lin Bin *(Vice Chairman of the Board)*
Chew Shou Zi

Non-executive Director:
Liu Qin

Independent Non-executive Directors:
Chen Dongsheng
Wong Shun Tak
Tong Wai Cheung Timothy

The biographical information of the Directors are set out in the section headed "Biographical Details and Other Information of the Directors" in this annual report. In addition, an up-to-date list of our Directors and their roles and functions is maintained on the Company's website and the Stock Exchange's website.

Throughout the Report Period, the Board has met the requirements of the Listing Rules regarding the appointment of at least three independent non-executive directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications, or accounting, or related financial management expertise. To provide transparency to the investor community and in compliance with the Listing Rules and the CG Code, the independent non-executive Directors of the Company are clearly identified in all corporate communications containing the names of the Directors.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors are independent.

## Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, directing and supervising the Company's affairs and acting in the best interests of the Company and its shareholders.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have full and timely access to all the information of the Company, and may upon request, seek independent professional advice in appropriate circumstances at the Company's expenses for discharging their duties to the Company. The Directors have disclosed to the Company details of other offices held by them.

# CORPORATE GOVERNANCE REPORT

The Board reserves for its discretion on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the chief executive officer and management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

## Chairman and Chief Executive Officer

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 Lei Jun currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of the chairman of the Board and the chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

## Appointment and Re-Election of Directors

According to the Articles, at every annual general meeting of the Company, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A Director appointed by the Board or by ordinary resolutions of the Company, either to fill a casual vacancy or as an addition to the Board, shall hold office only until the next following general meeting of the Company. All retiring Directors shall be eligible for re-election.

Each Director (including the non-executive Director and independent non-executive Directors) is engaged for a term of three years. They are subject to retirement and re-election in accordance with the provisions of the Articles as mentioned above.

### Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction shall be supplemented by meetings with the senior management of the Company.

Pursuant to code provision A.6.5 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

Throughout the Report Period, the existing and former Directors have participated in continuous professional training as follows:

| Name of director | Type of continuous professional development training[Notes] |
|---|---|
| Lei Jun | A & B |
| Lin Bin | A & B |
| Chew Shou Zi | A & B |
| Koh Tuck Lye | A & B |
| Liu Qin | A & B |
| Chen Dongsheng | A & B |
| Wong Shun Tak | A & B |
| Tong Wai Cheung Timothy | A & B |
| Lee Ka Kit | A & B |

Notes:

A: Attending seminar(s), conference(s), forum(s) and/or training course(s)

B: Reading materials provided by external parties or by the Company including but not limited to updates relating to the Company's business or directors' duties and responsibilities, corporate governance and regulatory update, Chapter 8A of the Listing Rules and knowledge relating to the weighted voting rights, and other applicable regulatory requirements.

# CORPORATE GOVERNANCE REPORT

## Attendance Records of Directors

During the Report Period, the Company held four Board meetings, four Audit Committee meetings, two Corporate Governance Committee meetings, two Remuneration Committee meetings, two Nomination Committee meetings and an annual general meeting. The attendance records of each Director at the above meetings are set out in the table below.

| | Attendance/Number of Meetings | | | | | |
|---|---|---|---|---|---|---|
| Name of Director | Board | Audit Committee | Corporate Governance Committee | Nomination Committee | Remuneration Committee | Annual General Meeting |
| Lei Jun | 4/4 | — | — | — | 2/2 | 1/1 |
| Lin Bin | 4/4 | — | — | 2/2 | — | 1/1 |
| Chew Shou Zi[1] | 1/1 | — | — | — | — | — |
| Koh Tuck Lye[2] | 3/3 | 3/3 | — | — | — | 1/1 |
| Liu Qin[3] | 4/4 | 1/1 | — | — | — | 0/1 |
| Chen Dongsheng | 4/4 | 4/4 | 2/2 | — | 2/2 | 0/1 |
| Wong Shun Tak | 4/4 | 4/4 | 2/2 | 2/2 | 2/2 | 1/1 |
| Tong Wai Cheung Timothy[4] | 1/1 | — | — | — | — | — |
| Lee Ka Kit[5] | 2/3 | — | 1/2 | 1/2 | — | 1/1 |

Notes:

(1) Chew Shou Zi was appointed as an executive Director on October 25, 2019. During the period from his appointment date up to December 31, 2019, one regular Board meeting was held.

(2) Koh Tuck Lye resigned as a non-executive Director on October 25, 2019. During the period from January 1, 2019 up to his resignation date, three regular Board meetings and three Audit Committee meetings were held.

(3) Liu Qin was appointed as a member of the Audit Committee on October 25, 2019. During the period from his appointment date as a member of the Audit Committee up to December 31, 2019, one Audit Committee meeting was held.

(4) Tong Wai Cheung Timothy was appointed as an independent non-executive Director on August 23, 2019. During the period from his appointment date up to December 31, 2019, one regular Board meeting was held.

(5) Lee Ka Kit resigned as an independent non-executive Director on August 23, 2019. During the period from January 1, 2019 up to his resignation date, three regular Board meetings, two Corporate Governance Committee meetings and two Nomination Committee meetings were held.

Apart from the above meetings, the chairman of the Board has held at least one meeting with independent non-executive Directors during the Report Period without the presence of other Directors.

The Board will meet at least four times a year in the future involving active participation of a majority of Directors, at approximately quarterly intervals. Schedules for regular Board meetings are normally agreed with Directors in advance to facilitate their attendance. At least 14 days' notice for all regular Board meetings will be given to all Directors and all Directors are given the opportunity to include items or businesses for discussion in the agenda. For all other Board meetings, reasonable notice will be given. Relevant agenda and accompanying meeting papers will be sent to all Directors in a timely manner and at least three days in advance of every regular Board meeting.

## Board Committees

The Board has established four Board committees, namely, the Audit Committee, the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees are established with specific written terms of reference which deal clearly with their authority and duties, and are posted on the Company's website and the Stock Exchange's website.

### Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. As at the Latest Practicable Date, the Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Liu Qin (appointed on October 25, 2019 following the resignation of Koh Tuck Lye on the same day), Chen Dongsheng and Wong Shun Tak. Wong Shun Tak, who possesses the appropriate professional qualification, and accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules, is the chairman of the Audit Committee.

None of the members of the Audit Committee is a former partner of the Company's existing Auditor, PricewaterhouseCoopers.

During the Report Period, the Audit Committee has performed the following major tasks:

- Reviewed the audited annual results of the Group for the year ended December 31, 2018.
- Reviewed the unaudited first quarterly results of the Group for the three months ended March 31, 2019.
- Reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2019.

- Reviewed the unaudited third quarterly results of the Group for the three and nine months ended September 30, 2019.
- Discussed matters with respect to effectiveness of the Company's financial reporting system, the system of internal control in operation, risk management system and associated procedures within the Group with senior management members, internal auditors and the Auditor.
- Reviewed the plans, resources and work of the Company's internal auditors.
- Reviewed the continuing connected transactions of the Group carried out during the year ended December 31, 2019.
- Reviewed the risk management and internal control systems of the Group.
- Discussed and made recommendation on the re-appointment of the Auditor.
- Reviewed the independence, terms of engagement and remuneration of PricewaterhouseCoopers for annual audit for the year ended December 31, 2019.

The Auditor was invited to attend the Audit Committee meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters. The Audit Committee also met with the Auditor without the presence of the executive Directors. The Audit Committee is satisfied with the independence and engagement of the Auditor. As such, the Audit Committee has recommended its re-appointment.

### Corporate Governance Committee

The Company has established the Corporate Governance Committee in compliance with Rule 8A.30 of the Listing Rules and the CG Code. The primary duties of the Corporate Governance Committee are to ensure that the Company is operated and managed for the benefit of all Shareholders indiscriminately and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company. As at the Latest Practicable Date, the members of the Corporate Governance Committee are the independent non-executive Directors, namely, Chen Dongsheng, Wong Shun Tak and Tong Wai Cheung Timothy (appointed on August 23, 2019 following the resignation of Lee Ka Kit on the same day). Chen Dongsheng is the chairman of the Corporate Governance Committee.

The following is a summary of work performed by the Corporate Governance Committee during the Report Period:

- Reviewed the policies and practices of the Company on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include the Code for Securities Transactions by Directors and Relevant Employees, board diversity policy, shareholders' communication policy, procedures for nomination of director by shareholders, disclosure of information policy, connected transactions policy, whistle-blowing policy, dividend policy and other corporate governance policies.

- Reviewed the Company's compliance with the CG Code and the deviation(s) from code provision A.2.1 of the CG Code, the Company's disclosure in the Corporate Governance Report and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.

- Reviewed the remuneration, the terms of engagement and the re-appointment of the Company's compliance advisor.

- Reviewed and monitored the management of conflicts of interests between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.

- Reviewed and monitored all risks related to the weighted voting rights structure, including connected transactions between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.

- Reviewed the arrangement for the training and continuous professional development of Directors and senior management (in particular, Chapter 8A of the Listing Rules and knowledge in relation to risks relating to the weighted voting rights structure).

- Reviewed the written confirmation provided by the WVR Beneficiaries that they have been members of the Board throughout the Report Period and no matters under Rule 8A.17 of the Listing Rules have occurred during the Report Period; and they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the Report Period.

- Sought to ensure effective and on-going communication between the Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.

- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.

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

# CORPORATE GOVERNANCE REPORT

voting rights or a potential conflict of interest between the Group and these beneficiaries. The Corporate Governance Committee recommended the Board to continue the implementation of these measures and to periodically review their efficacy towards these objectives.

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

## Nomination Committee

The Company has established the Nomination Committee in compliance with Rule 8A.27 of the Listing Rules and the CG code. The primary duties of the Nomination Committee are to review the Board composition, make recommendations to the Board regarding the rotation and appointment of Directors and Board succession, and assess the independence of independent non-executive Directors of the Company. As at the Latest Practicable Date, the Nomination Committee comprises one executive Director and two independent non-executive Directors, namely, Lin Bin, Wong Shun Tak and Tong Wai Cheung Timothy (appointed on August 23, 2019 following the resignation of Lee Ka Kit on the same Day). Tong Wai Cheung Timothy is the chairman of the Nomination Committee.

During the Report Period, the Nomination Committee has performed the following major tasks:

- Reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements for the business of the Group.

- Considered and recommended to the Board the appointment of Chew Shou Zi and Tong Wai Cheung Timothy as directors of the Company, the appointment of Lin Bin as vice-chairman of the Board, and the appointment of Liu Qin as a member of the Audit Committee.

- Assessed the independence of all the independent non-executive Directors.

- Recommended the re-election of the retiring Directors at the 2019 annual general meeting of the Company.

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talents.

A Board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for reviewing the Board composition by considering a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The Nomination Committee would discuss periodically and, where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth. The Company is also committed to ensure that recruitment and selection practices at all levels are appropriately structured so that a diverse range of candidates are considered. The Nomination Committee shall report its findings and make recommendation to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

The Company has also adopted a nomination policy for election of Directors. Such policy, devising the criteria and procedures of selection and performance evaluation, provides guidance to the Board on nomination and appointment of Directors of the Company. The Board believes that the defined selection process is good for corporate governance in ensuring the Board continuity and appropriate leadership at Board level, and enhancing Board effectiveness and diversity.

The Nomination Committee and the Board may nominate candidates for directorship. In assessing the suitability and the potential contribution to the Board of a proposed candidate, the Nomination Committee may make reference to certain selection criteria, such as reputation for integrity, professional qualifications and skills, accomplishment and experience in the internet and technology markets, commitment and relevant contribution, diversity in all aspects. The Nomination Committee shall report its findings and make recommendation to the Board on the appointment of appropriate candidate for directorship for decision and succession planning. The ultimate responsibility for selection and appointment of Directors rests with the entire Board.

### Remuneration Committee

The Company has established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the CG code. The primary duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management. The Remuneration Committee comprises one executive Director and two independent non-executive Directors, namely, Lei Jun, Chen Dongsheng and Wong Shun Tak. Chen Dongsheng is the chairman of the Remuneration Committee.

# CORPORATE GOVERNANCE REPORT

During the Report Period, the Remuneration Committee has performed the following major tasks:

- Reviewed the remuneration policy and the remuneration packages of the Directors and senior management of the Company.
- Reviewed and recommended to the Board the remuneration packages of Chew Shou Zi and Tong Wai Cheung Timothy upon their appointment as directors of the Company.
- Reviewed and recommended to the Board the grant of share awards to certain senior management of the Company.

Pursuant to code provision B.1.5 of the CG Code, the annual remuneration (including share-based compensation) of the members of senior management, including those members of senior management who are also the executive Directors[1], by band for the year ended December 31, 2019 is set out below:

| Annual Remuneration | Number of individuals |
|---|---|
| HK$0 to HK$10,000,000[2] | 5 |
| HK$10,000,001 to HK$30,000,000 | 2 |
| HK$30,000,001 to HK$100,000,000 | 9 |
| HK$100,000,001 to HK$150,000,000 | 0 |
| HK$150,000,001 to HK$15,000,000,000 | 0 |

Notes:

(1) Senior management as of December 31, 2019.

(2) No other cash emoluments have been granted to Lei Jun by the Company in 2018 and 2019. Lei Jun has promised to donate the share-based compensation granted in 2018 after deducting any tax payable for charitable purposes.

Further details of the remuneration for the year ended December 31, 2019 are set out in Note 9 to the consolidated financial statements contained in this annual report.

## Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and they can only provide reasonable, but not absolute, assurance against material misstatements or losses.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risk of failure to achieve the Company's strategic objectives, as well as establishing and maintaining effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management team to oversee the design, implementation and monitoring of the risk management and internal control systems.

The management considers it is important to establish and to continue to improve its risk management and internal control systems, and has strengthened internal control, internal audit, compliance and forensic functions of the Company during the Report Period. The Company's risk management and internal control systems have been developed with the following principles and processes:

Organization principles:

In accordance with COSO framework[1], the Three Lines of Defense Model has been implemented:

The First Line of Defense — Management and Operation:

The First Line of Defense is mainly formed by the business and functional departments of the Company which are responsible for the day-to-day operations, and they are responsible for designing and implementing control measures to address the risks.

The Second Line of Defense — Risk Management, Internal Control and Other Functions:

The Second Line of Defense is mainly implemented by the Internal Control team, which is responsible for formulating policies, designing and implementing integrated risk management and internal control systems. To ensure effective implementation of such systems, this line of defense also assists and supervises the First Tine of Defense in the establishment and improvement of control measures.

Note:

(1) the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations.

# CORPORATE GOVERNANCE REPORT

The Third Line of Defense — Internal Audit and Forensic:

The Third Line of Defense is mainly implemented by the Internal Audit and Forensic teams, which hold a high degree of independence. They provide an evaluation on the effectiveness of the Company's risk management and internal control systems, and monitor management's continuous improvement over these areas.

The Forensic team is responsible for receiving whistle-blowing reports and investigating alleged fraudulent incidents.

The Internal Audit and Forensic teams directly report to the Audit Committee.

Risk Management Process:

All departments conduct internal control assessments regularly to identify risks that potentially impact the business of the Group.

The Internal Audit team is responsible for performing independent reviews of the adequacy and effectiveness of the risk management and internal control systems. These reviews are performed annually. The Internal Audit team examines key issues in relation to the accounting practices and all key internal controls, and provide its findings and recommendations to the Audit Committee.

The Board, supported by the Audit Committee and management, reviewed the management reports and the internal audit reports. For the Report Period, the Board considered the risk management and internal control systems of the Company effective and adequate.

The Company has developed its disclosure policies which provide a general guide to the directors, officers, senior management and relevant employees of the Company in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and the use of insider information are strictly prohibited.

Significant risks of the Company:

During the Report Period, the Company identified certain significant risks through its risk management evaluation process, which have been reported to its Audit Committee. The Company has designed and implemented measures to address these risks accordingly:

1. **Competition and technology innovation:**

   The Company operates its business in a highly competitive market. Uncertainties arising from global economic and trade environment and the outbreak of COVID-19 pandemic made it more challenging for the Company to achieve its business, operational and financial goals. The official commercialization of 5G technology and the constant evolution of AI technology increased market demand for innovative products and services. If our progress of developing innovative technology is unable to catch up with the rapid increase in demand, our core competitiveness may be negatively affected.

   The Company closely monitors the global economy trends, continuously invests in new technologies and offers our customers with innovative products and services. In 2019, the Company continued to increase investments in R&D.

   To maintain its revenue growth, the Company implemented the "Smartphone + AIoT" strategy, continued to develop new technologies, and provided Internet services in growing number of overseas markets. The Company's Technology Committee set up "Xiaomi Annual Technology Award" to promote technological innovation. The Company also recruited high-caliber scientists to enhance its R&D capabilities.

2. **Product and service quality:**

   Quality issues of products and services may seriously affect the user experience, thus affecting our brand value and reputation.

   "Quality is the lifeline of Xiaomi". This is a quote by our CEO that reiterates the importance of quality for Xiaomi. The Company's Quality Committee is responsible for quality management for the entire Company, covering products, services and user experience. It publishes unified guidelines on the Group level and sets out rules in respect of quality assessment, code of conduct, accident-handling and assessment, and related rewards. An information system was set up to assist quality control and help improve the efficiency and effectiveness of quality evaluation. The Company actively promotes the culture of quality first, setting up quality-related awards.

# CORPORATE GOVERNANCE REPORT

3. Supply chain:

We are highly dependent on various suppliers to provide raw materials and components for our core products. Sources of raw materials and components for certain high-end products are limited. Sourcing from a single region or from a single vendor can also happen. Products are likely to be subject to transportation delay or constrains, and subject to price inflation of components due to shortages or underlying commodity pricing fluctuations. The majority of our suppliers' production lines are concentrated in mainland China. Our global operation including freight, pricing and timely delivery is subject to risk due to this situation.

We assess various risks, such as global macroeconomic factors, fiscal policies of different countries, tariff policies, foreign exchange rates, inflation and other factors that may affect our supply chain, and actively seek ways to strengthen our supply chain. We continue to diversify supplier sources to reduce the risks of uncertainty brought by overreliance on a single source. We expand the manufacturing capacity in India and Indonesia to address the potential risks of concentrating production in mainland China. We establish an alarm system for force majeure events such as natural disasters and public health matters. We also set up contingency plans for these events in order to minimize their impact on our supply chain.

4. Compliance:

With the changes in regulations on competition across the world and the increased transparency of domestic and international markets, the Company is subject to regulation and compliance requirements in different countries, including labor, anti-trust, anti-corruption, accounting, tax and privacy regulations (including anti-trust on data, actions against unfair competition, labor, export controls, trade secrets protections and the protocols on privacy regulations). Any non-compliant practice may affect our brand and reputation. Furthermore, violation of any laws and compliance requirements may lead to penalties and may even severely affect our business operations. The Company may be impacted by any possible unfavorable consequences of legal proceedings against us.

The Company's legal and internal control departments team up to establish a global compliance framework. During the Report Period, we optimized the Company's compliance organization structure, system, operating mechanism, risk assessment, and cultural development, revised the code of conducts that apply to our employees worldwide, and established guidelines for major compliance areas to mitigate associated risks. The Company established an integrity and compliance platform, open to employees, customers, business partners and investors. We reviewed the whistleblower system. We also conducted regular compliance training sessions in China, India, Europe, Russia, and Indonesia. In terms of export control, the Company has established an information system to enhance its controlling capabilities, and incorporates relevant control requirements to contracts that require business partners to abide by.

5. Information security and privacy:

The Company's business is highly dependent on information system and data analysis. Information security incidents may impact the continuity of business operations. To achieve certain business functionalities and improve user experience, some of our products and services require the usage of user data. The compliance with data regulation and security is one of the top priorities of the Company. During the Report Period, governments across the world strengthened regulations on internet security and the protection of user information. In China, scrutiny over these issues have been elevated to unprecedented heights. The management recognized that any non-compliant collection, leakage or inappropriate handling of user data would lead to significant impacts on users and the Company's reputation. Furthermore, any leakage of sensitive business data to our competitors may compromise our competitive advantages.

The Company's Data Security and Privacy sub-Committee, established under our Technology Committee, is responsible for formulating data classification system and implementing security policies. It is tasked with effectively managing privacy risks by formulating department-level representation mechanism and deploying an online privacy assessment system to ensure that all major changes undergo risk assessment. The Company established a surveillance system and feedback process to monitor data security incidents and minimize the impact of these incidents on the Company. The Company has also set up a comprehensive training program on data security and privacy for employees, including orientation training for new employees, professional-level security and system training for representatives from the business departments. A dedicated information security team is responsible for implementing a proactive security management system within the Company.

The Company has received the ISO27001, ISO29151 and ISO27018 international security and privacy certifications. We have also filed "Network Security Level Protection" document with the Ministry of Public Security of the People's Republic of China, to satisfy the requirements for corporate information security management. The Company released the "MIUI Security and Privacy White Paper" to share its practice regarding to data security and user privacy with users and the industry.

# CORPORATE GOVERNANCE REPORT

## Directors' Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended December 31, 2019.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other regulatory requirements. The senior management has provided to the Board necessary explanation and information to enable the Board to make an informed assessment of the financial information and position of the Company, which are put forward to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The statement of the Auditor about their reporting responsibilities on the Company's consolidated financial statements for the year ended December 31, 2019 is set out under the section headed "Independent Auditor's Report" in this annual report.

## Auditor's Remuneration

The fees paid/payable to the Auditor in respect of audit services and non-audit services for the year ended December 31, 2019 are analyzed below. The amount of audit service fee also included statutory audit fee for certain subsidiaries of the Group. The non-audit services conducted by the Auditor mainly include professional services on tax advisory and internal control consultation services.

| Type of services provided by the Auditor | Fees paid/payable (RMB'000) |
|---|---|
| Audit services | 46,138 |
| Non-audit services | 32,988 |
| **Total** | **79,126** |

## Joint Company Secretaries

Steve Lin, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

So Ka Man of Tricor Services Limited, an external service provider, has been engaged by the Company as the other joint company secretary to assist Steve Lin to discharge his duties as the joint company secretary of the Company. The primary contact person at the Company is Steve Lin.

During the Report Period, Steve Lin and So Ka Man have taken the required number of hours of relevant professional trainings.

## Communications with Shareholders and Investors

The Board believes that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparency and timely disclosure of its corporate information, which enables the Shareholders and investors to make the best investment decision. In this respect, the terms of reference of the Company's Corporate Governance Committee include, among others, seeking to ensure effective and on-going communication between the Company and the Shareholders.

General meetings of the Company provide an opportunity for communication between the directors, senior management and the Shareholders. The Board welcomes views of the Shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members and appropriate senior management of the Company are available at such meetings to respond to enquiries raised by the Shareholders. To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings.

During the Report Period, the Company held an annual general meeting on May 14, 2019. Notice of the meeting was sent to the Shareholders on April 9, 2019, at least 20 clear business days before the meeting. The chairman of the Board and the chairmen/members of each of the Audit Committee, the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee attended the annual general meeting and were available to answer any questions raised by the Shareholders. A representative of the Auditor also attended to answer any questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

# CORPORATE GOVERNANCE REPORT

The Company publishes in a timely manner both English and Chinese versions of (i) any corporate communication (as defined in the Listing Rules) of the Company that requires shareholder attention or action, and (ii) announcements relating to matters to be disclosed under the Listing Rules (including but not limited to those involving insider information, corporate actions and corporate transactions).

Shareholders and investors can access the Company's announcements, financial information and other information at "www.mi.com/ir". Shareholders and investors may send written enquiries or requests to the Company, for the attention of the Board of Directors, as follows:

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
Email: ir@xiaomi.com

The Company continues to enhance communications and relationships with Shareholders and investors. Designated senior management maintains regular dialogue with institutional investors and analysts to keep them posted of the Company's developments. Enquiries from shareholders and investors are dealt with in an informative and timely manner.

The Company ensures that the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, maintains the most up-to-date information relating to the Company's shares at all times so that it can respond effectively to shareholder enquiries.

The Company has established a shareholders' communication policy with the objective of promoting effective and on-going communication between the Company and the Shareholders so that they can exercise their rights in an informed manner. The Corporate Governance Committee reviews the shareholders' communication policy on a regular basis to ensure its effectiveness, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.

With respect to Code Provision E.1.5 of the CG Code, the Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

## Shareholders' Rights

To safeguard the Shareholders' interests and rights, separate resolutions are proposed at the Shareholders' meetings on each substantial issue, including the election of individual directors, for the Shareholders' consideration and voting. All resolutions put forward at the Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company (www.mi.com) and the Stock Exchange after each Shareholders' meeting.

Pursuant to the Articles of the Company, extraordinary general meetings shall be convened on the written requisition of any one or more Shareholders holding, as of the date of deposit of the requisition, in aggregate shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. A written requisition shall be deposited at the principal office of the Company in Hong Kong to the Board or the joint company secretaries for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) themselves may convene the general meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement (as the case may be) to the Company's principal place of business in Hong Kong and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

There is no provision allowing the Shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

With respect to the Shareholders' right in proposing persons for election as Directors, please refer to the procedures available on the website of the Company.

During the year ended December 31, 2019, there was no significant change in the memorandum and articles of association of the Company.

The Articles are available on the websites of the Company and the Stock Exchange.

## Events after the Report Period

Save as disclosed in this Corporate Governance Report, there has been no other significant event subsequent to the Report Period and up to the Latest Practicable Date that might affect the Group.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. Overview of Xiaomi's Corporate Social Responsibility (CSR)

### 1.1 About the Report

This Report sets out to present, on an objective and fair basis, the performance of Xiaomi Corporation ("**Xiaomi**", the "**Corporation**", the "**Company**", "**we**") on Environmental, Social and Governance ("**ESG**") in 2019. The ESG Report was prepared in compliance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to *The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* published by The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). It is recommended that this Report be read in conjunction with the section entitled "Corporate Governance Report" as contained in the Annual Report.

In preparing this Report, we strove to ensure that the information disclosed herein meets the requirements of Hong Kong Stock Exchange on four major principles, namely materiality, quantitative, balance and consistency.

Xiaomi adopts ESG as a core methodology to fulfil its CSR programs, and is committed to achieving the best practice in ESG management.

The source of information and cases within this Report were mainly derived from the Company's statistical reports, relevant documents and internal communication documents in 2019. The Company undertakes that there are no false records or misleading statements in this Report, and takes responsibility for the authenticity, accuracy and completeness of the information in this Report.

### 1.2 Xiaomi's CSR Actions in 2019

Xiaomi aims to respond actively to the Sustainable Development Goals ("**SDGs**") developed by the United Nations ("**UN**"). In light of the industry attributes and the characteristics of Xiaomi, we identify and prioritize SDGs that are strategic to our CSR core areas, namely "products, users, environment and society", and continue to implement a wide range of SDG-related initiatives.

## UN SDGs | Xiaomi's 2019 Actions and Achievements



### Products

**Core Strategy**

- Launched the "Smartphone + AIoT" strategy in early 2019; and
- Upgraded the strategy at the beginning of 2020, and clarified the strategic direction as "5G + AIoT" — the next-generation super Internet.

**Product Quality**

- Established the Group Quality Committee to promote and supervise quality management processes; and
- Received several product quality-related awards for excellent product quality performance.

**Outstanding Designs**

- Won over 50 renowned design awards including IF Design Award, Good Design Award, Red Dot Award, Pentawards, and International Design Excellence Award (IDEA) etc.

**Technology Innovation**

- Set up the Technology Committee, and consistently pursue advanced technological innovation;
- Attracted over 3,000 developers to the third Xiaomi Developer Conference (MIDC), and shared the latest developments in 5G, AI, IoT, big data and Internet finance technologies;
- Invested approximately RMB7.5 billion in R&D in 2019;
- Submitted over 33,000 patent applications as of the end of 2019;
- Received the title of National Open Innovation Platform for Next Generation Artificial Intelligence at the 2019 World Artificial Intelligence Conference for our achievements in the smart home category, and won 5 awards at the International Big Data Industry Expo 2019; and
- Set up the "Xiaomi Annual Technology Award" for excellent engineers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


## Users

### User Experience

- We put users' needs first and build a culture of engaging with users;
- Provided an open platform for users through continuously developing the Mi Community; and
- Added personalized and innovative functionalities to optimize user experience, among which many functions in MIUI11 are widely acclaimed by users.

### Customer Service

- Operated over 630 Mi Homes in mainland China as of December 31, 2019, and continued to strengthen relations with our users by organizing events;
- Established a cross-departmental service coordination team to promote service quality;
- Optimized the service model to continuously improve user experience; and
- The customer satisfaction rate of customer service hotline in 2019 reached 96.82%.

### Privacy Protection

- Conducted comprehensive user privacy and information security management; and
- Published the MIUI Security and Privacy White Paper《MIUI安全與隱私白皮書》.

### Mi Fan Culture

- Organized activities for Mi fans around the world, including the Mi Fans Festival, Mi Pop meetings and the Orange Run.

## Environment




### Green Operation

- Responded to the E-commerce Green Development Initiative to promote green logistics, green packaging and practice recycling;
- Applied green operation and management in Xiaomi Science and Technology Park:
  - Employed water-efficient facilities and solar-based hot water systems, and utilized reclaimed water;
  - Used permeable materials to construct the ground of the sidewalks, parking lots and squares;
  - Saved 937,500 disposable plastic bags by using large trash cans;
  - Introduced waste sorting including processing kitchen waste for re-use; and
  - Donated 100 personal computers, and 474 used personal computers purchased by employees internally to promote recycling.
- Purchased servers that demonstrate high power efficiency and energy-saving capability, set up a power consumption monitoring system and deployed water-cooled and air-cooled air conditioners;
- Replaced plastic bags with paper bags in Mi Homes and used sustainable materials to decorate Mi Homes;
- Promoted the Mi Exchange program for trading-in smartphones, Mi notebooks and Mi Pads for new devices;
- Sold a total of 21,996 government-subsidized energy-saving products; and
- Provided e-waste recycling services in Xiaomi India.

### Green Product

- Introduced green packaging designs such as the One Paper Box package, which saves up to 40% packaging material;
- Upgraded our AI assistant "小愛同學" with a widely acclaimed garbage classification function; and
- Added environmental protection labels on the packaging of Xiaomi products.

### Green Supply Chain

- Continued to promote green supply chain management.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Society


### Employee Care

- Updated Employee Handbook to better ensure that key policies are clearly and consistently communicated, and prepared for the establishment of Xiaomi's labor union in 2020;
- Promoted employee diversity, with 18,170 employees from 28 countries;
- In 2019, the Board of Directors awarded a total of 77,911,031 Award Shares to Selected Participants, covering 1,136 person-times;
- In addition, to commemorate our inaugural entry into the Fortune Global 500 list, the Board awarded a total of 20,538,000 Award Shares to 20,538 Selected Participants;
- Provided diverse vocational, management and career development training programs for employees;
- Established Qinghe University, which focuses on developing talents, young professionals, and empowering organizational competiveness;
- Maintained high standards of health and safety management; set up a project safety management emergency response working group and released the Mi Project Emergency Response Manual 《小米項目應急執行手冊》;
- Organized various employee activities to enrich employees' lives and enhance employee communication; and
- Promoted the employment of persons with disabilities and received the 2019 Enterprise Award for Caring for and Helping the Disabled.

### Win-win Cooperation

- Empowered ecosystem partners by investing in over 290 ecosystem partners to collaborate for win-win outcomes; and
- Conducted CSR audits for key suppliers.

### Social Welfare

- Made cash and material donations worth approximately RMB22 million in total (Xiaomi's Donations);
- Established the Xiaomi Public Welfare Foundation and organized and promoted a series of welfare programs;
- Designed products and platforms with a focus on public welfare, including the world's first "smartphone + AIoT" platform with built-in earthquake warning function;
- Comprehensively promoted information accessibility, and enriching relevant product functionality; and
- Proactively carried out public welfare activities including poverty alleviation, educational donation, and disaster relief activities.

## 1.3 CSR Concept

Xiaomi's mission is "to relentlessly build amazing products with honest prices to enable everyone in the world to enjoy a better life through innovative technology". Xiaomi's vision is to "be friends with our users, and be the coolest company in the hearts of our users".

At the core of our CSR philosophy, we set our sights on improving people's lives through technology and becoming a respectable corporate citizen. By enshrining "products, users, environment and society" as our core areas, we strive to actively fulfill our corporate responsibility and contribute to sustainable development, by pursuing innovative technology and outstanding design in our products, and an equal and inclusive business environment. We also adhere to people-oriented principles, comply with code of conduct, value environmental protection, and invest in community capacity building.

In 2019, Xiaomi became the youngest company to figure on the Fortune Global 500 list selected by *Fortune Magazine*. This achievement will invigorate Xiaomi to pursue CSR excellence more actively in the future.

## 1.4 CSR Management Structure

Xiaomi's Board of Directors has overall responsibility for CSR activities. Operationally, we have established the CSR management team, which involves multiple businesses and departments to guide and coordinate the overall CSR practice of the company.

In 2019, Xiaomi built the "three departments and three committees" management structure. This consists of Strategy Department, Organization Department, Finance Department, Quality Committee, Technology Committee and Procurement Committee, and their purpose is to further strengthen our management, with a view to being more professional, improving comprehensive risk prevention and control, and enhancing our corporate social responsibility performance.

## 1.5 Stakeholder Engagement

Xiaomi seeks to actively listen and respond to the expectations of its stakeholders. To that end, we continually identify and engage with stakeholders relevant to our business, including our customers and users, shareholders and investors, employees, suppliers and partners, government and regulatory agencies, media and NGOs, communities etc. We have taken the initiative to establish diversified communication channels and mechanisms for our stakeholders in order to enable timely and effective stakeholder engagement.

| Key stakeholders | Key Expectations | Major Communication Channels |
|---|---|---|
| **Governments and regulators** | Compliance<br>Anti-corruption<br>The environment and natural resources | Policy consultation<br>Event reporting<br>Site inspection<br>Information disclosure<br>Meetings with government agencies |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Key stakeholders | Key Expectations | Major Communication Channels |
|---|---|---|
| **Shareholders and investors** | Xiaomi's business performance<br>Industry risks<br>Compliance | Annual General Meetings<br>Annual reports/interim reports/ quarterly results announcements<br>Meetings with investors<br>Results release conferences<br>News releases/announcements |
| **Consumers/users** | Quality of products and services<br>Marketing compliance | Official website<br>Social platforms such as MIUI Forum<br>Instant messaging software<br>Customer service hotline<br>Press conferences<br>Social media |
| **Employees** | Employment<br>Health and safety<br>Development and training<br>Labor standards | Staff communication meetings<br>Employee Committee<br>Complaint boxes<br>Instant messaging software |
| **Suppliers/partners** | Supply chain management<br>Anti-corruption<br>Product responsibility | Supplier conferences<br>Dealer conferences<br>Communication meetings with partners<br>Invitations to bid<br>Site invitations |
| **Media and NGOs** | Use of resources<br>The environment and natural resources<br>Employment<br>Supply chain management<br>Product responsibility | Social media<br>Press conferences and news releases<br>Interviews |
| **Community** | Emissions<br>Use of resources<br>The environment and natural resources<br>Community investment | Community activities<br>Press conferences<br>Public benefit activities<br>Social media |

## 1.6 Materiality Assessment

In 2019, through continuous and effective communication with stakeholders, we conducted substantive analysis on the 11 ESG issues set out in the ESG Reporting Guide, hoping to further understand the feedback and expectations of stakeholders regarding Xiaomi's ESG management. The results also serve as a reference for our actions and the Report, so as to better respond to the issues raised by stakeholders.

According to the ESG Reporting Guide, we identified the following key issues: product responsibility, employment, health and safety, and supply chain management. Other significant issues include, development and training, anti-corruption, emissions, use of resources, labor standards, community investment and the environment and natural resources. We will discuss each of these issues separately in the following sections of this Report.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2. Gift Warmth to Technology

Product quality is at the core of Xiaomi's strategy and we emphasize technology innovation as the development driver. We continue to pursue high quality and outstanding product designs, and to create a global open ecosystem.

### 2.1 Quality Management

Xiaomi pays close attention to quality management. In line with the core concept of "Enhance the quality management and improve the user experience", Xiaomi continuously improves quality management systems and processes, deepening the awareness of our staff, and strengthening the quality management of product life cycles.

**Management System Guarantee**

Xiaomi set up the Quality Committee to carry out quality management. In line with product quality, user experience, service quality, and safety compliance, the Quality Committee promotes and supervises quality management, and aims to improve user experience.

In 2019, we revised and improved the regulations related to quality awards and quality accident management; enhanced the emergency handling process; and optimized the quality management of our departments. We upgraded the quality management assessment and established assessment indicators to further refine our quality management. Xiaomi has promoted comprehensive quality management internationally, for example, our India subsidiary obtained ISO 9001 certification for quality management in 2019.

**Quality Management Improvement**

We improved our quality management system through quality data analysis and information mining on the basis of quality document digitalization, which provides our departments and suppliers with quality information support and optimized processes. We visualized relevant data for better quality management and assisted our departments to improve the management of quality objectives and overall quality management.

In 2019, we continued to arrange for top management or business leaders to listen to user feedback to gain a better understanding of consumers' concerns on product and service.

We recognize the importance of the content quality of our APP store, and conduct both machine-powered automatic testing and manual review to ensure the compatibility and compliance of apps.

Xiaomi not only emphasizes product quality management, but also service quality management. We pay close attention to any quality-related issues, and respond quickly to emergencies.

For more details about service quality, please refer to the section: 4.2 Aftersales Services.

### Product Health and Safety

Xiaomi pays special attention to product health and safety. Continuous assessments of product health and safety is conducted throughout the product life cycle, including R&D, material selection, development verification, product launch, and aftersales. We set our enterprise standard for material safety based on international standards. All our products comply with relevant laws, regulations, and standards in China and in the regions where the products are sold. Meanwhile, we are committed to promoting green design and the standardization of health and safety work across the industry. We participated in drafting the industry standards for green product evaluation.

### Social Recognition

Xiaomi's quality management was highly recognized by industry and society in 2019.


Xiaomi won the Asia Service Award for quality service in 2019.


Chairman and CEO, Mr. Lei Jun received the China Outstanding Quality Model at the Commemorative Ceremony of the 40th Anniversary of the Founding of China Association for Quality.


China Association for Quality invited Xiaomi to share quality management experience with peers.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


Xiaomi was invited to attend the 3rd China Quality Conference and shared experience regarding quality management.

Shenzhen Association for Quality visited Xiaomi with other companies to share experience on quality management.


Xiaomi extended the warranty period from 12 months to 18 months for Redmi Note 7.

| Winner | Awards | Organizer |
| --- | --- | --- |
| **Xiaomi** | 2018 Customer Service Satisfaction Unit of Consumer Electronics Industry | China Electronic Chamber of Commerce |
| | Outstanding Promotion Unit at the Commemorative Ceremony of the 40th Anniversary of Promoting Total Quality Management | China Association for Quality |
| | Asia Service Award | Asian Network for Quality |
| **Xiaomi Youpin** | The Integrity Management and Service Advanced Unit | Jiangsu Association for Quality |
| **Xiaomi APP Store** | Advanced Unit | Anti-Network-Virus Alliance of China |
| **Xiaomi Router Mesh** | The only 5-star Recommendation Award in 2019 China Mobile's first intelligent hardware quality assessment (distributed routing category) | China Mobile Research Institute |
| **Mi Mobile Phone** | The Most Publically Acclaimed Mobile Phone | China Mobile |
| **Xiaomi Full Screen TV** | Annual Quality Product Award | All View Cloud and Diankeji |
| **Xiaomi Customer Service Department** | 2019 China Top 10 Call Centers — Excellent All-Channel Customer Service Award | Call Center and Customer Relationship Management Committee of China Electronic Chamber of Commerce |

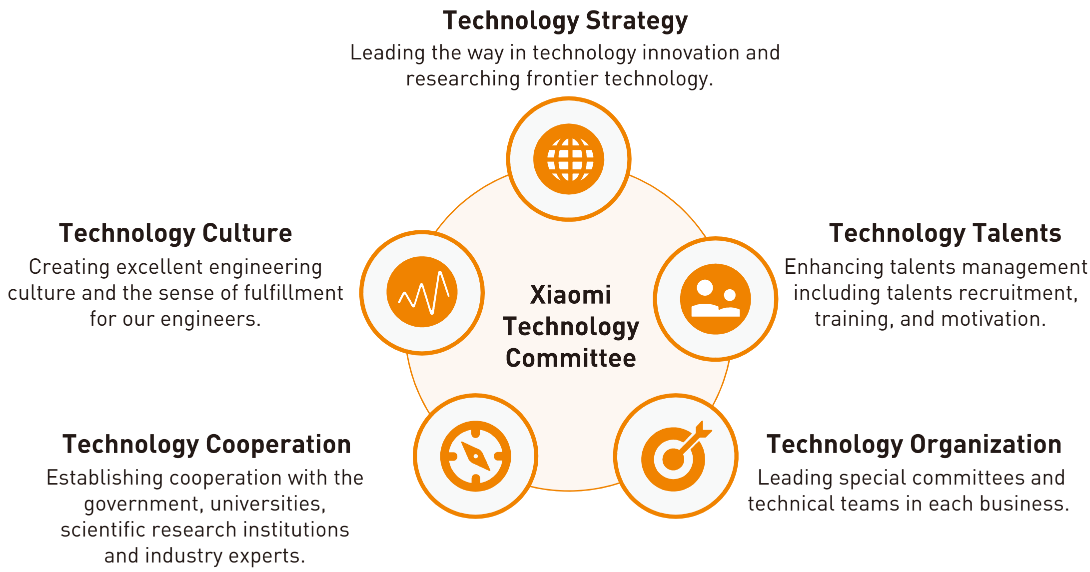
*The above represents selected Xiaomi's awards in 2019.

Moving forward, we will adhere to strict quality management and bring products and services to our users with high quality standards.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.2 Technology Innovation

Xiaomi regards technology innovation as the core contributor to its development. We set up a Technology Committee in 2019 which is responsible for strategy, talents, organization, cooperation, and culture in the field of technology. The Committee will lead our exploration of future technology trends.




In 2019, Xiaomi's investment in R&D reached approximately RMB7.5 billion. As of December 31, 2019, we submitted more than 33,000 patent applications, within which, the number of AI patent applications kept pace with the Chinese top internet enterprises. Our R&D laboratories are currently operated in Xiaomi Science and Technology Park, Wuhan Science and Technology Park and other cities. We also set up R&D offices abroad, including an office focused on developing smartphone cameras technologies in Finland.

Xiaomi values top talents and creates a culture to nurture talented people. We established the "Xiaomi Annual Technology Award" for our most outstanding engineers. In 2019, we awarded it to our surround-display technical team for their contribution to relevant research. We organized the Top Coder Competition, Data Mining Competition, and other activities to promote our technology culture.

We attach great importance to a strong IP portfolio. Through acquiring high quality patents, we continue to improve our technological capabilities. As of December 2019, we had acquired almost 3,000 domestic and overseas patents. Besides, we continue our licensing or cross-licensing agreements with well-known companies such as Oracle, Adobe, Qualcomm, Microsoft, Nokia, NTT DoCoMo and Via Licensing.

Our technology innovation has been well recognized. In 2019, Xiaomi won 5 awards at the International Big Data Industry Expo 2019; was honored as one of the Top 50 Big Data Enterprises at the World Computer Congress; and became one of the council members of the Artificial Intelligence Industry Innovation Strategy Alliance (AITISA).

**The International Big Data Industry Expo 2019**

Xiaomi won 5 awards at the International Big Data Industry Expo 2019:

- the New Technology Award for the "Pegasus" distributed storage system;
- the New Product Award for Xiaomi's intelligent customer service robot; and
- the Excellent Project Award for MACE (Mobile AI Computing Engine), for the quality warning system "Caifeng", and for the smart home far field acoustic testing system.

**Industry Standardization**

With the coming of the "5G+AIoT" era, Xiaomi actively participates in the related domestic and overseas standardization work. We led the discussion on 5G terminal industry standards, and the drafting of national, industrial and group standards including smart home appliances, AI, cloud computing, big data, biometric identification and sensors, and wearable devices etc. We are one of the major drafters of national standards for wearable devices, smart home appliances, AI, cloud computing, fast charging, and wireless charging, etc.

In 2019, we sent over 90 participants to a range of meetings hosted by international organizations for standardization including the 3rd Generation Partnership Project (3GPP), and contributed a few hundred proposals. We had over 300 attendees at domestic standardization meetings including the China Communications Standards Association (CCSA) and the National Information Technology Standardization Technology Committee. We took part in more than 40 national, industry, and group standardization projects.

Xiaomi initiated several domestic alliances including Unified Push Alliance, Quick APP Alliance, and Intelligent Hardware Industry Alliance. We hold key positions in many industry alliances and associations to promote the development of various industries. We are the co-Chairman of the China Standards and Regulations Group of Wireless Power Consortium (WPC), the council member of CCSA, deputy leader of smart home sub group of CCSA Internet and terminal working group, the council member of the Artificial Intelligence Industry Alliance (AIIA), and the council member of the 5G Application Industry Array (AIA).

**HBaseCon Asia Summit 2019**

In July 2019, Xiaomi and Apache HBase Community jointly hosted the HBaseCon Asia Summit 2019, exchanging insights and experience in HBase, cloud computing, big data and AI with experts and community leaders from Internet companies around the world. This played a significant role in popularizing open source and promoting the development of the open source community.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Xiaomi's Outstanding Technology Highlights in 2019*

Xiaomi CC9 Pro

### 108MP

Mi CC9 Pro is the world's first mass-produced smartphone equipped with a 108MP camera, and ranked first for its camera performance on DxOMark at the time of launch.

Xiaomi MIX Alpha

### 180.6%

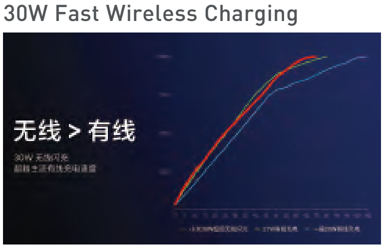
Mi MIX Alpha showcases an innovative "Surround Display" with a screen-to-body ratio of more than 180.6%, representing Xiaomi's innovation for future smartphones.

MIX 3 5G

### 8K Video Online Play

Xiaomi's first 5G smartphone MIX 3 5G is certified by EU 5G. It realizes online 8K Ultra HD video play and supports 5G video call.

30W Fast Wireless Charging




### 4000mAh, 69 Minutes Fast Charging

As the leader in the fast charging technology, the 30W fast wireless charging technology charges Xiaomi 9 Pro 5G with up to 4000mAh battery capacity in 69 minutes.

Mi TV 5

### 97% Screen-to-body Ratio

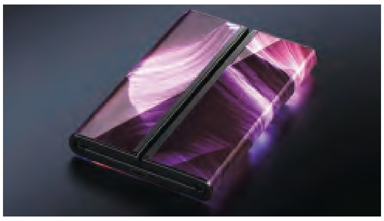
Mi TV 5 features a 1.8mm ultra-narrow metal bezel and a 5.9mm slim body with a 97% screen-to-body ratio, delivering a stunning visual experience.

Mi Watch

## 1.78-inch Screen

Mi Watch has an exquisite design with powerful functions. It features a flagship 1.78-inch AMOLED square screen, and offers an immersive viewing experience with a 326 PPi pixel density and a four-sided curved design.

Xiaomi Double-folding Smartphone**



## The Folding Screen Smartphone

Xiaomi's first double-folding smartphone can be used as a phone and a tablet, featuring ease of use and wide screen.

Xiaomi Hidden Screen**


## The Under-screen Camera Technology

The under-screen camera technology ensures a full screen and avoids the visual segmentation caused by front cameras.

*The above represents selected Xiaomi's amazing products and outstanding technology highlights in 2019.

**The products and technologies are in the research stage.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 2.3 Outstanding Designs

To improve user experience and exceed customers' expectation, Xiaomi integrates innovative technology into products with aesthetic designs. For years, we have developed our products into a Mi Look and gained broad appreciation from customers. We continue to improve our designs for better products and user experience.

In 2019, Xiaomi obtained recognition from users and the industry for its continuous pursuit of design excellence.

### Xiaomi won over 50 renowned design awards in 2019

#### Smartphone Industrial Design

- MiMIX3: IDEA Silver Award, IF Design Award, Red Dot Design Award, and Good Design Award
- Mi 8 (Transparent Exploration): IF Design Award, and Good Design Award
- Red K20 Pro: Good Design Award, etc.

#### Packaging Design

- Mi Sports Bluetooth Headset (Youth Edition): Pentawards Gold Award
- Mi Sports Bluetooth Headset (Youth Edition): Red Dot Design Award
- Mi Bluetooth Headset Mini (Packaging Design): Pentawards Bronze Award
- One Paper Box: Good Design Award Best 100, etc.

#### Eco-Chain Industrial Design

- Mi Induction Cooker: IF Design Award
- Mi Table Lamp Pro: IF Design Award
- Mi Front-Load Washer and Dryer Pro 10kg: IF Design Award
- Mi Photo Printer: Good Design Award
- Mi Projector (Youth Edition): Red Dot Design Award and Good Design Award
- Mi Smart Door Lock: Good Design Award
- Mi Children's Scooter: Red Dot Design Award
- Xiao AI Touch Screen Speaker: Good Design Award, etc.

#### Customer Experience Design

- 'Sounds of Nature' and 'Soothing and Ever-changing' system of MIUI: Red Dot Design Award
- MiPOS UI Design: Good Design Award
- Xiao AI Touch Screen Speaker UI Design: Red Dot Design Award, IDEA Design Award, etc.

The above just represents selected Xiaomi's awards in 2019.

## 2.4 Global Ecosystem Development

At the beginning of 2019, Xiaomi launched the "Smartphone + AIoT" strategy, and established an AIoT Strategy Committee to promote the convergence of AI and IoT. With the development of 5G, Xiaomi upgraded the strategy in early 2020, clarified the strategic direction as "5G+AIoT" - the next-generation super Internet, and planned to invest RMB50 billion in the field of "5G+AIoT" in the next 5 years.

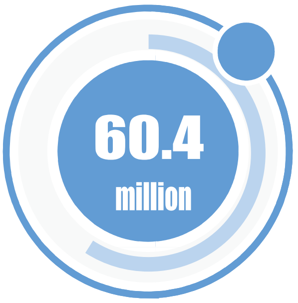
### MIDC 2019

**In 2019, with the theme of "the new era of intelligence", we held the third Xiaomi Developer Conference (MIDC), an event that drew 3,000 developers to attend. It embraced open source and the new era of intelligence. We shared the latest technologies in areas including 5G, AI, IoT, big data and Internet finance.**

**Internet of Things**

We started the "Xiaomi Ecosystem Plan" in 2013 as foundation for our IoT plans. We used our core technologies to explore the IoT industry, promote the great development of IoT platforms, and strive for an IoT era. Today, Xiaomi's IoT platform covers many household areas, becoming the world's leading consumer IoT platform. Our user base and the number of devices connected to the platform have continued to grow robustly.


*The number of connected devices (excluding smartphones and laptops) reached*




*The Monthly Active User (MAU) of our AI assistant in December 2019 reached*

Through the empowerment of our brand, capital, channels, technology and teams, we make full use of our strengths and resources to assist the growth and development of enterprises, and the continuous development of our ecosystem partners. Xiaomi has implemented financial technology innovations to better serve partners in the manufacturing industry around the globe.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**>290** Ecosystem partners have received investment from Xiaomi

**>100** Ecosystem partners focus on the development of smart hardware and lifestyle products

**>400** Ecosystem partners were provided with supply chain financing services

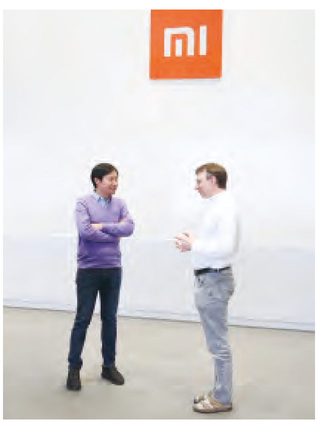
The development of our IoT business has helped promote our brand. In 2019, we received several social recognitions including being honored by BrandZ™ as the 74th among the Top 100 Most Valuable Global Brands and 11th among the Top 100 Most Valuable Chinese Brands.

### Artificial Intelligence

Xiaomi promotes independent R&D on AI, and aims to expand the application of AI into more fields. As such, we pay special attention to recruiting and training of AI talents.

#### Daniel Povey

In 2019, the top expert in speech recognition and the "father" of Kaldi — Daniel Povey, joined Xiaomi.



#### 58% postgrad & 6% doctoral

Most of Xiaomi's AI recruits graduated from renowned universities — 58% of them are postgraduates and 6% of them are doctoral graduates.

#### RMB100 million

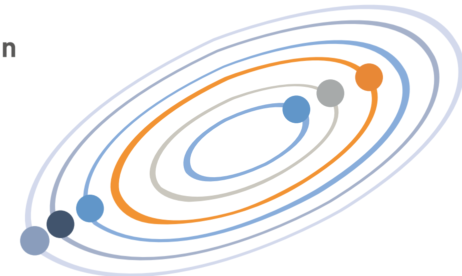
Xiao AI Open Platform has set up incentive funds totaling RMB100 million to incentivize developers.

#### Nearly 100 new graduates

Every year, almost 100 excellent university graduates join our AI department.

Xiaomi's AI laboratory is the engine for AI technologies. Our research focuses on 6 major fields including computer vision, acoustics, speech, natural language processing, knowledge graph, and machine learning to explore advanced technologies and strengthen Xiaomi's technological capability.

- **Computer Vision**
- **Acoustics**
- **Speech**



- **Natural Language Processing**
- **Knowledge Graph**
- **Machine Learning**

Our AI assistant "小愛同學" has progressed well since its launch in March 2017. It is updated constantly with diverse AI functionality to enable convenient living for its users. As of the third quarter of 2019, the number of intelligent devices with built-in AI assistant "小愛同學" reached more than 40, and the number of intelligent devices supporting the functions of AI assistant "小愛同學" reached 800 in 35 categories.

## Over 1,400 tasks

Our AI assistant "小愛同學" performs over 1,400 tasks, and can be integrated into applications for subjects such as weather, music, and calendar by connecting with smartphones, AI speakers, Mi TV, Mi Watch, and other AIoT products, which greatly enriches user scenarios.

## 34.1 billion times

By $14^{th}$ November 2019, our AI assistant "小愛同學" was woken up 34.1 billion times, becoming one of the most active AI voice-enabled platforms in China.

## The garbage classification function

On July $1^{st}$, 2019, our AI assistant "小愛同學" launched the garbage classification function, with daily usage reaching up to 170,000 times.

### Smart Home

With our leading AIoT strengths, we were involved in broad international cooperation in different AIoT areas. We strive to upgrade households and develop smart homes by applying our core technology. For example, Xiaomi cooperated with Huazhu Hotel and launched a smart hotel that is fully equipped with Xiaomi AIoT products. Also, together with Pizza Hut, we unveiled a new feature which allows users to order food through Mi Smart TV.


At the 2019 World Artificial Intelligence Conference (WAIC). Xiaomi received the title of "National Open Innovation Platform for Next Generation Artificial Intelligence" by the National Ministry of Science and Technology. Xiaomi smart home continuously enriches the use cases, from smart living room, bedroom, bathroom, sports and travel, to audio-visual entertainment and more. Through a variety of IoT devices, we hope more households can enjoy smart lives at home.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


In 2019, we received the "Super AI Leader (SAIL) Award/Top 30 Project" issued by the Committee Office of WAIC.

**An Open Platform**

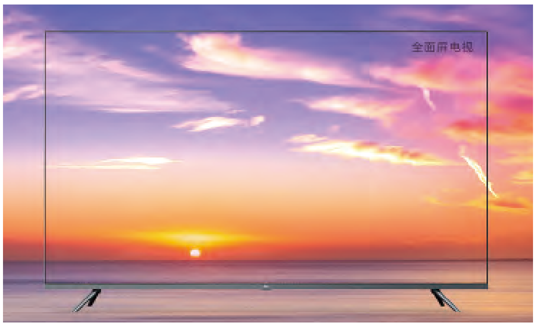
Xiaomi's IoT platform serves smart appliances, smart homes, and wearable devices etc. The platform shares Xiaomi's intelligent hardware access and control, automation scenarios, AI technology, and new retail channel. Together with our partners and developers, we have created an open and innovative environment for an excellent IoT experience.

## 3. Gift Honesty to Business

### 3.1 Amazing Products with Honest Prices

Over the years, Xiaomi has insisted on honest pricing while providing our users with products that are of high quality, outstanding design, and have a high price-performance ratio. We put forward the design concept of "satisfying 80% of the needs of 80% of the population" and continuously explore our customers' most fundamental product functionality needs. We pursue effective operations and reduce unnecessary costs.


In 2019, the first Redmi brand 5G smartphone – Redmi K30 5G was released. Powered by the Qualcomm® Snapdragon™ 765G processor, 64MP+2MP+5MP+8MP quad camera, 20MP+2MP dual front camera, and 30W fast charging, the Redmi K30 5G is priced starting from RMB1,999, which takes the lead in bringing the price of 5G smartphones to less than RMB2,000.



**Mi Full Screen TV Pro 55'' E55S adopts a 4K HDR+ panel with a screen-to-body ratio of up to 97%, features a 2GB+32GB storage, PatchWall, 2×8W speaker, our AI assistant "小愛同學", Dolby +DTS, and supports 8K video playback. The offering price is RMB2,399.**

## 3.2 Advertisement and Trademark Management

### Advertisement Management

We strictly abide by the *Advertising Law of the People's Republic of China*《中華人民共和國廣告法》, *Advertising Regulations*《廣告管理條例》, *the Policy for Administration of Internet Advertising*《互聯網廣告管理暫行辦法》 and any other applicable regulations and international practices in the place of operation. The Legal Department, the Public Affairs Department, the Safety and Compliance Department under the Quality Committee, and various business departments, jointly conduct advertising management. The content and quality of advertisements are strictly controlled through multiple methods including automated and manual review, so as to ensure the compliance of the advertisement before its release. In addition, we organize regular training on compliance to enhance employees' awareness.

### Brand and Trademark Management

Xiaomi strictly abides by the *Trademark Law of the People's Republic of China*《中華人民共和國商標法》 and other relevant regulations. We strive to protect our brands and trademarks as well as those owned by others. We have built a comprehensive system for trademark application and a trademark monitoring system. A professional team is responsible for the registration, maintenance, promotion, protection and management of trademarks and branding. We formulated and improved brand management policies, and actively carried out compliance training to improve awareness among our employees. In 2019, the number of trademark applications was 2,124, and a total of 2,272 trademarks have been approved and registered (including trademarks applied for in previous years and were approved and registered in 2019).

Xiaomi maintains a zero-tolerance attitude towards counterfeit goods. We collaborate with major e-commerce platforms through several anti-counterfeiting methods including case handling, investigation and offline actions for intellectual property protection. We cooperated with anti-counterfeiting platforms to crack down on making and selling counterfeit products. We participated in the special actions of Chinese customs to prevent import and export of counterfeit. Moreover, we have established a global system for anti-counterfeiting and rights protection; for monitoring products sold by third-parties; and for fighting against infringements. In 2019, we assisted relevant organizations in handling administrative and criminal anti-counterfeiting cases worth over RMB36 million in China. Through the prevention and control mechanism of the platform, we identified infringement links or products, and raised complaints to the relevant e-commerce platforms. There were around 80,000 infringement links removed.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.3 Fostering a Safe Ecosystem

We always hold ourselves to the highest international standards in terms of information security and user privacy. Xiaomi adheres to a transparent and fair Privacy Policy and strives to maintain a safe ecosystem. The Security and Privacy Committee has been set up to manage the information security and user privacy protection.

Our information security team and privacy protection team are responsible for information and privacy management, vulnerability and threat assessment, and training etc. We set security and privacy indicators to ensure the effectiveness of security and privacy management systems. We have formulated and strictly abide by relevant data protection regulations including *Xiaomi Personal Data Quality Management*《小米個人數據質量管理制度》, *Xiaomi Data Protection Impact Assessment*《小米數據保護影響評估制度》, and *Xiaomi User Privacy Data Protection Specification*《小米用戶隱私數據保護規範》 etc. to ensure the effectiveness of our management.

In 2019, in order to have a comprehensive assessment of our privacy security management and measures, we conducted self-assessment of our apps, *General Data Protection Regulation*《通用數據保護條例》 (GDPR) audit program, certification of International Organization for Standardization (ISO), data classification projects etc. We received security and privacy certification for ISO 27001, ISO 27018, and ISO 29151.

We carried out diverse privacy and information security trainings for our employees, including on-site security awareness training for new employees, department privacy training, and a security and privacy professional training camp to improve our employees' awareness of information and privacy security.

### User Privacy Protection

Xiaomi formulated the *User Privacy Protection Clauses*《小米用戶隱私保護條款》. With reference to the internationally recognized *Five Criteria for Privacy* standards, Xiaomi applies strict control to products and services and ensures that the Privacy Policy is clearly communicated and is transparent and fair to our users. Respective control measures include a privacy impact assessment before product launch, classification of data during the product use phase, and proper disposal and/or handling of data after use.

For our overseas privacy management, we have professional teams paying close attention to the compliance requirements of different countries. We have identified the privacy compliance requirements of 62 countries.

In order to regulate privacy management, in 2019, Xiaomi launched the Privacy Compliance Platform. The functions including privacy review and approval, recording, and automated testing are managed online, which has improved the efficiency of the privacy approval.

We conduct strict control processes for data transmission and cross-team data support, which needs to go through Xiaomi's online privacy risk assessment and examination including manual and automated assessment. We follow EU standard contract terms or GDPR when transferring the data generated in the EU exclusive economic zone to outside EU areas.

We strengthened our privacy training to raise employees' awareness. The training includes broad compliance requirements from different countries, security courses, and courses certified by the International Association of Privacy Professionals (IAPP).

## The security assessment system: MiEye

In 2019, we released MiEye, a new system for user data and privacy security. It is an automatic assessment system made for our "Smartphone + AIoT" strategy. It assesses data and privacy security for smartphones and AIoT products. MiEye has assisted our security department to complete assessments of hundreds of products, which not only ensured the security of our products, but also improved the efficiency of our security work for our users. In addition, the system simulates the privacy requirements of different countries, and automatically identifies privacy risks by analyzing the network flow.


## MIUI Security and Privacy White Paper

At the MIDC 2019, we published the *MIUI Security and Privacy White Paper* for the first time. It introduces the security structure, security technology, security functions, and security metrics of MIUI, and reports Xiaomi's security and privacy practices to our users and partners transparently and openly.

## Privacy compliance assessment of ecosystem products

Xiaomi has conducted strict privacy compliance assessments on ecosystem products, and created automated assessment processes through the privacy assessment system. Our ecosystem companies need to submit product information, product APK, privacy policy, user agreement, security documents, list of countries where products will be sold etc. Privacy lawyers and security engineers conduct compliance assessments. The Mi Home team carries out privacy compliance technology tests and cross-border transmission tests. Products can be launched only after our privacy assessments are complete.

In 2019, Xiaomi was invited for the first time to participate in the 5th IoT Security Summit in London by the Internet of Things Security Foundation (IoTSF). Xiaomi communicated with companies and researchers from different countries who were concerned about IoT security, and shared our experience on IoT security technology.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## App Safety and Compliance

- Xiaomi strictly controls the safety and compliance of apps. For each app, we conduct technical automated testing and manual testing for content compliance. For online apps, we carry out manual review and testing.
- Xiaomi APP Store enhanced the privacy compliance management of online apps. Together with the security team, we carried out a daily privacy compliance patrol, removed apps with excessive requests on user authority, and required the rectification.
- Xiaomi provided safe and reliable app download ports and recommended the apps listed on the White List by the Anti Network-Virus Alliance of China (ANVA) to create a reliable environment for app download.

Xiaomi actively promotes the privacy security of the industry. We joined the Mobile Security Alliance (MSA) and participated in the drafting of the *Specifications for Supplementary Device Identification of Smart Mobile Terminal*, in order to deal with the information security issue that IMEI code is easy to tampered with and use fraudulently, and ensure that users' data is not leaked or stolen.


## International Standards – ISO 27001, ISO 27018 & ISO 29151

At the MIDC 2019, Xiaomi received certification for ISO 27001, ISO 27018, and ISO 29151.


## MIDC Name Tags

We designed name tags for MIDC guests by using smashed materials from retired server hard disks.

## Logistical Privacy Security

We use an anonymous number, instead of the user's real mobile number, in the logistical process to ensure that the user's mobile number is not disclosed. In 2019, this function was used in around 20,000 orders, 48,000 messages, and 20,000 phone calls.

For privacy security risks, Xiaomi has set up relevant emergency plans and processes, and a reporting mechanism to regulators. Our comprehensive management system protects user privacy.

**Information Security Management**

Xiaomi strictly complies with the *Cybersecurity Law of the People's Republic of China*《中華人民共和國網絡安全法》, *Regulations on the Management of Information Services for Mobile Internet Applications*《移動互聯網應用程序信息服務管理規定》and *Regulations on Technical Measures for Internet Security Protection*《互聯網安全保護技術措施規定》. We enforce information protection on our devices around six different aspects: certification, communication, hardware, firmware, system, and application.

## Security Laboratories

Xiaomi established an AIoT Security and Privacy Lab where professional security personnel perform overall privacy security tests on all Mi AIoT devices before sale, including vulnerability detection and attack testing, various internal procedures, and control measures to reduce the risk of data leakage and user data protection.

## 4,465 security flaws & 99.5% repair rate

As of December 2019, the Xiaomi security team identified 4,465 security flaws with a 99.5% repair rate. With risk reduction measures as a precondition, all unrepaired security flaws were reported and followed-up by assigned person.

## A Safe Ecosystem

- Xiaomi has formulated *Security Specifications on Xiaomi IoT Products* 《小米IoT產品安全規範》 for our ecosystem partners. Within the security specifications, we list detailed security requirements and implementation methods to assist the develop capability of our partners in achieving high security standards.
- Xiaomi carries out the overall management and control of information security of suppliers, and requires the suppliers to make relevant improvements. We sign confidentiality agreements with suppliers, and ask them to fill in questionnaires for security technology testing. We carry out business cooperation only after the review and approval of suppliers' information security.

Xiaomi also encourages external personnel to actively participate in discovering vulnerabilities to jointly maintain a safe environment.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


At Xiaomi Security Center, Xiaomi shares knowledge on information security and rewards people with cash for detecting security vulnerabilities. In 2019, there were 476 reported external vulnerabilities.


In 2019, Xiaomi cooperated with Security Response Centers (SRC) of 12 enterprises and jointly organized the 1st White Hats Festival. Participants who submitted effective security weaknesses to SRC would receive a bonus, and a public welfare bonus would be sent to children in under-privileged areas by the corresponding SRC.

In cooperation with HackerOne, Xiaomi rewarded white hats* with varying bonuses for discovering security vulnerabilities and compromised information.

* White hats are ethical hackers who identify vulnerabilities in Internet or computer systems.

**For more information about Xiaomi's privacy and information security management, please visit Xiaomi Security Center website. https://sec.xiaomi.com/**

## 3.4 Intellectual Property (IP) Management

Xiaomi enforces strict and comprehensive IP management in accordance with relevant laws and regulations such as the *Patent Law of the People's Republic of China*《中華人民共和國專利法》, the *Trademark Law of the People's Republic of China*《中華人民共和國商標法》and *the CNNIC Domain Name Dispute Resolution Policy*《中國互聯網絡域名管理辦法》. We updated our trademark inquiry application process and joint brand management specification. While the Legal Department conducts IP management at the group level, each key department has specialist personnel to ensure effective implementation.

Xiaomi conducts strict IP management to protect our IP and avoid the infringement of IP rights of others. We enhanced the risk control of IP and trademarks through risk assessment and investigation, risk reduction strategies and measures, and compliance training etc. We formulated the IP rights investigation system and relevant processes for our overseas markets. Our professional legal team carries out IP risk investigation and preventive measures to reduce the risk before the sale or exhibition of our products overseas.

On the basis of negotiation with other companies, Xiaomi has initiated an innovative licensing model and entered into a number of licensing or cross-licensing agreements with well-known companies, including Oracle, Adobe, Qualcomm, Microsoft, Nokia, NTT DoCoMo and Via Licensing.

In 2019, Xiaomi received several IP related awards including the "Superior Company" in the National Intelligent Property and Beijing Intellectual Property Demonstration Unit etc.

小米知识产权保护平台

**Xiaomi respects IP rights and has an IP protection platform for reporting infringements. This provides a channel for public rights protection. Please visit Xiaomi IP protection platform for details. https://www.mi.com/static/intellectual/index.html**

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 3.5 Anti-Corruption

**Anti-fraud**

Xiaomi insists on zero tolerance towards fraud. We strictly abide by laws and regulations pertaining to anti-corruption and anti-bribery such as *Criminal Law of the People's Republic of China*《中華人民共和國刑法》, *Anti-Unfair Competition Law of the People's Republic of China* 《中華人民共和國反不正當競爭法》. We formed *the Anti-Corruption Convention for Employees of Xiaomi Corporation*《小米集团員工反腐公約》, *Avoidance of Conflict of Interest Management Regulation of Xiaomi Corporation*《小米集团避免利益衝突管理制度》, and *Employee Integrity Behavior Guidelines*《員工廉潔行為指引》. We prohibit all types of fraudulent activities, corruption, bribery, fraud, and other dishonest behaviors, as well as any other activities in violation of laws and regulations. Meanwhile, according to objective factors such as the development of the group, the change of the external environment and our business, we revise our regulations in a timely manner, and constantly strengthen our anti-fraud management and relevant practices, so as to ensure the effectiveness of our work.

In 2019, we continuously deepened anti-fraud management. We enhanced our supplier selection standards, strictly reviewed the qualifications of suppliers, and required new suppliers to sign *Integrity Commitments*. Meanwhile, we improved our business operation process and the bidding process. We strictly control the authority of our employees, clarify the division of responsibilities, and segregate the responsibilities of incompatible positions to prevent fraud at the source.

We continue to improve our fraud reporting and investigation system, and encourage the reporting of any (potential) fraud. When a reported case of fraud arises, an anti-fraud investigative team will handle the case in accordance with Xiaomi's internal rules and regulations. In 2019, Xiaomi released *Whistle Blowing Management Regulation of Xiaomi Corporation*《小米集团舉報管理制度》, which formed a closed-loop management process from receiving and accepting a case, to handling cases. We formulated *Whistleblower Reward Regulation of Xiaomi Corporation*《小米集团舉報人獎勵制度》to encourage and reward whistleblowers who disclose their identity, and the *Protection Regulation of Complaints and Complainants of Xiaomi Company*《小米公司投訴及投訴人保護制度》to protect the rights of complainants. Xiaomi's official whistle blowing channels include email, phone, and global reporting platform (integrity.com). The global reporting platform covers over 60 countries with more than 60 languages, and provides 24-hour service, 7 days a week, which is open to global employees, customers, investors and partners.

In 2019, Xiaomi updated the *Code of Conduct for Employees of Xiaomi Corporation*《小米集团員工行為準則》which is applicable for our global businesses. It defines the scope of our compliance management, and details the requirements of each employee's behavior. It provides relevant guidance and direction covering 5 aspects (respect, trust, integrity, transparency and responsibility) with 16 principles.

Xiaomi has actively participated in anti-fraud related organizations such as the Trust and Integrity Enterprise Alliance and the Chinese Corporate Anti-Fraud Alliance. Through information sharing mechanism among enterprises, we jointly conduct anti-corruption actions.


We publicize integrity culture through a compliance video, posters, compliance publicity month and other ways to strengthen the integrity and compliance awareness of our employees. In 2019, Xiaomi organized 60 online and offline training events for domestic and overseas employees, including anti-corruption, conflict of interest, gift receipt, and the *Code of Conduct for Employees of Xiaomi Corporation*. Around 10,000 employees participated. We also organized training and awareness raising for our employees above general manager grade on areas including anti-corruption, conflicts of interest and code of conduct.


At the supplier conference in 2019, we covered anti-fraud messages to suppliers and customers, emphasized Xiaomi's principle of "zero tolerance" for corruption, and proposed to work with suppliers and customers to maintain a healthy business ecosystem.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Anti-money Laundering**

Pursuant to the *Anti-Money Laundering Law of the People's Republic of China*《中華人民共和國反洗錢法》, the *Provisions of Financial Institutions on Anti-Money Laundering* and《金融機構反洗錢規定》, the *Measures for the Administration of Anti-Money Laundering and Anti-Terrorism Financing of Internet Financial Institutions (Provisional)*《互聯網金融從業機構反洗錢和反恐怖融資管理辦法（試行）》, the Internal Control and Audit Department and the Treasury Department are jointly responsible for performing necessary actions for anti-money laundering compliance, including identifying and implementing controls over business operations that present risks of money laundering.

Xiaomi Finance established an Anti-Money Laundering and Counter-Terrorism Financing team, which is responsible for the formulation, implementation and revision of relevant management processes. With guidance from the team, the Risk Management Department implements anti-money laundering measures. An Anti-Money Laundering Officer has also been appointed to take charge of day-to-day activities in this regard.

Furthermore, the Risk Management Department conducts preliminary assessments and formulates targeted measures for any potential money laundering risk events. After handling risk events, an investigative team will produce a summary report of the event and propose measures to avoid further risks.

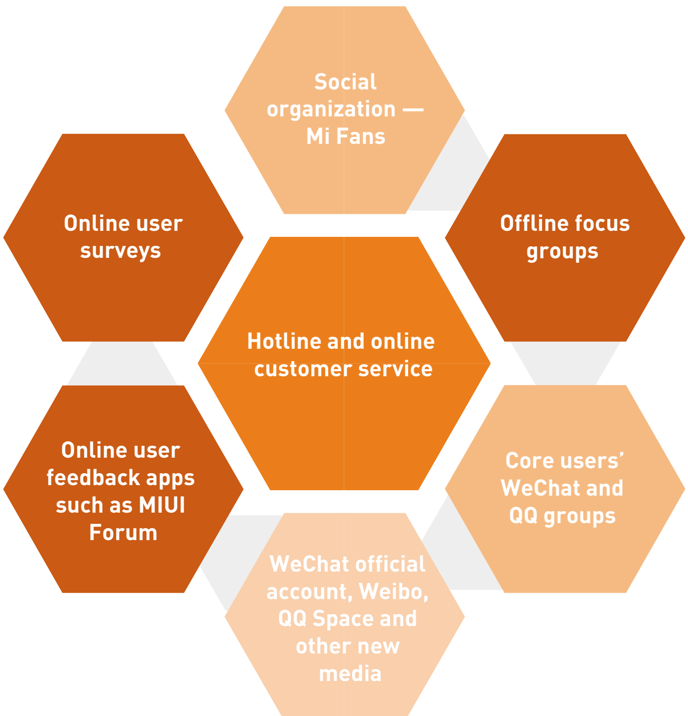
## 4. Gift Sincerity to Our Users

At Xiaomi, our vision is to "be friends with our users, and be the coolest company in the hearts of our users." To fulfill that vision, Xiaomi sets its sights on becoming the most user-centric mobile internet company.

### 4.1 Deep Engagement

**User Engagement**

Users have always been at the heart of Xiaomi as it builds its user engagement program to connect, interact and become friends with them. We consult our users about many aspects of production, service, branding and sales so that they are engaged in creating a brand that they can access and own, and with which they can grow.




We have a special team dedicated to collecting, analyzing and reporting user feedback. The feedback analysis is leveraged to inform product upgrades and service improvements. As Xiaomi's official community forum, Mi Community offers diverse content to users, including product-related news and MIUI-related Tips and Tricks. It also provides a platform for users to share reviews, inspiration and feedback, and interact with one another.

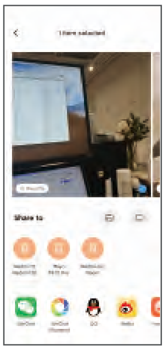
In an effort to better improve user experience, Xiaomi holds internal user experience seminars to review, analyze and summarize the possibilities for user experience improvement. We collect user feedback through multiple channels such as Weibo, various forums, customer service, user research, etc., conduct in-depth analysis, formulate special internal experience projects, and make corresponding improvements.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

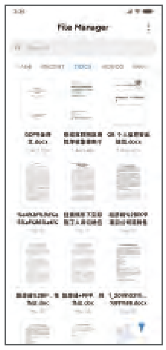
Taking MIUI as an example, in order to ensure the continuous improvement of the MIUI user experience, in 2019, we held 7 internal seminars themed "Make Friends with Users", 27 "Internal Feedback Sessions", and 24 "Weibo MIUI Leaders Online" communication events, collecting more than 1,000 pieces of effective user feedback on our business lines. Meanwhile, we have established a long-term mechanism where members from product, R&D, testing, and design teams participate in function development and acceptance tests before the launch of new functions throughout the development cycle. In order to truly understand the needs of users, we organize our team members to take turns to collect user opinions and answer questions from internal beta users.

### User-friendly Features of MIUI

To "be friends with our users" is what drives us to continuously optimize MIUI. We hope to make the life of our users easier by continuously developing more user-friendly features in our product range. This year, MIUI 11 introduced an array of new, innovative user-friendly features:

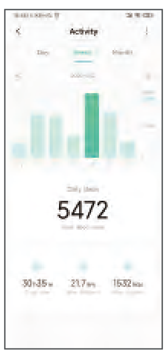


**Mi Share**
enables file-sharing between devices running on Android-based ColorOs and Funtouch OS operating systems

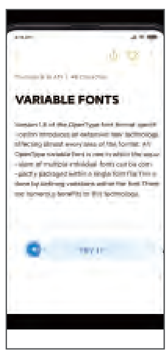



**Mi Doc Viewer**
allows users to view documents that are saved in different file types.


**Wireless printing**
allows users to print photos and PDF documents wirelessly, without having to install any additional apps, and supports more than 2,000 printer models.




**MI Health**
contains four sections — Sleep, Diet, Exercise and Mood. It can detect users' health-related data and provide them with health tips.




**Dynamic Font Scaling**
allows users to change the thickness and size of the characters according to their preferences using a slider. The text weight can be adjusted based on the content level and importance level, bringing a smoother reading experience.

## Screen Sharing

Three new options have been added to the screen sharing function:

— *Minimize window*: minimizes the window allowing users to use other functions on the phone;

— *Share with off-screen*: allows the sharing to continue even when the source device screen is turned off; and

— *Hide private items*: hides floating notifications, incoming calls and other private items on externally connected monitors.


### Mi Home

As Xiaomi's direct customer service and experience centers, Mi Homes present customers with a wide portfolio of selected new products for them to try out. We operated over 630 Mi Homes in mainland China as of December 31, 2019. To strengthen bonds with our users, Mi Homes organized a series of events, such as group hiking, mountain cleaning, and visiting nursing homes and welfare houses.

## 4.2 Aftersales Services

Xiaomi has made unwavering efforts to provide our users with world-class aftersales service.

**Repair & Maintenance Outlets**

As of December 31, 2019, Xiaomi had over 500 outlets for carry-in repair, over 900 outlets for home service, and 6 national delivery repair centers. Our 8 spare-parts warehouses ensure the material supply and delivery time of the service outlets.

In 2019, to further improve our customer service, we upgraded over 200 repair and maintenance outlets, and incorporated a one-hour feedback resolution rate into our after-sales key performance indicators, applying a higher standard to our customer service. One-hour feedback resolution refers to either solving a customer's problem directly or giving a proper solution within an hour after receiving feedback from customers.

**Service Model**

Xiaomi continuously upgrades and diversifies its service model to improve user experience:

**Face-to-face maintenance**

- **We have introduced the face-to-face maintenance service at more than 100 outlets nationwide. During the maintenance service, customers can observe the disassembly and maintenance process of their smartphones on-site, providing customers with a more reassuring service experience.**

**Delivery-repair**

- **We have established 6 national delivery-repair centers across mainland China and 29 provincial delivery-repair centers, providing consistent and convenient after-sales services for customers living in towns and counties.**

**Integrated delivery and installation**

- **We have set up delivery-installation warehouses in proximity to our Mi Homes in a bid to increase installation effectiveness and enhance user experience. Users who have purchased TVs from our Mi Homes or via Mi.com can enjoy seamless last-mile delivery and installation services.**

We have also introduced an AI robot into Xiaomi's online aftersales service systems in 2019 to increase service efficiency and save users' time. This helps speed up the turnaround by automatically filtering and answering general and frequently asked customer inquiries, allowing our specialists to focus on handling more specific and personalized inquiries from customers.

### Service Team

The principle of having the full Xiaomi team supporting the customer has been deeply integrated into Xiaomi's culture. This year, Xiaomi established a service coordination team comprising staff from the customer service, logistics and aftersales services departments to better manage cross-departmental service fulfillment. In 2019, the customer service hotline customer satisfaction rate was 96.82% and the corresponding figure for online customer service was 90.96%.

In preparation for the 2019 Singles' Day shopping festival, Xiaomi extensively deployed its employee pool, ramped up technical training and operational support, and devised a comprehensive emergency response plan to ensure smooth delivery of orders for the festival.


During the Single's Day shopping festival period, over

**10,000**

Training spots filled by staff

**3,400**

Staff supported

**300,000**

Couriers mobilized

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Social Recognition

Xiaomi has won wide recognition from both users and the industry for its excellent aftersales services.


China's Best Call Center by CNCCA

Top 10 Call Centers of the Year — 2019 Outstanding All-channel Customer Award by China Call Center


National Outstanding Entity of after-sales service in 2019

The Third National Outstanding Quality Service Award from the China Quality Association in 2019

## 4.3 Mi Fan Culture

Not only do we take great pride in our business achievements, but we are also proud of our "fan culture". Since the founding of Xiaomi in 2010, Mi Fans have spread across the world, and today, they can be found in every corner of the globe.

### The Mi Fan Festival


In 2019, over 200 Mi Fans gathered in Beijing to celebrate Xiaomi's $9^{th}$ birthday. Internationally, the 2019 Mi Fans festival was held in 22 countries and regions.

### Mi Pop


"Mi Pop" is an initiative that includes organizing dozens of meetings for various fan clubs every year. In 2019, more than 25 events were organized.

### Mi Postcard


Since Xiaomi was founded, we have sent out 100,000 handwritten postcards to our beloved Mi fans every year. To celebrate the $10^{th}$ anniversary of our Mi Fans Culture, we created a set of special "2020 Explore Impossibility" voice postcards. Our senior management and employees invited their families to write their New Year wishes to our Mi fans. These neatly designed postcards were sent out along with Xiaomi's orders.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

AI Dorm Design Competition

In 2019, Xiaomi initiated the AI Dorm Design Competition this year. Through encouraging college students to create smart home designs, Xiaomi wishes for more young people to enjoy the fun of AI technologies.

## 4.4 Accessible Technology

According to statistics released by the China Disabled Persons' Federation, there are over 85 million disabled people in mainland China. Xiaomi believes that everyone has a full, equal right to access information. Standing at the forefront of accessible technology, Xiaomi has been committed to breaking information barriers and bridging any digital divide.

During the National People's Congress and the Chinese People's Political Consultative Conference held in March 2019, our Chairman and CEO, Mr. Lei Jun, put forward an information accessibility proposal — "Recommendations on Further Deepening the Implementation of Information Accessibility" — to advocate the importance of information accessibility. He pointed out that in the information age, the disabled and the elderly cannot be left behind, and gave a number of practical recommendations to the government based on Xiaomi's experience. Mr. Lei Jun's proposal was highly endorsed by UNESCO, China Association of the Blind and Internet Society of China.


At the 2019 World Summit on Information Society organized by the International Telecommunication Union (ITU), the United Nations Educational, Scientific, and Cultural Organization (UNESCO) and other organizations, Xiaomi's vice president Dr. Cui Baoqiu shared Xiaomi's experience in building accessible technologies and advocated that technology companies invest more resources on information accessibility to help everyone enjoy technology. Xiaomi's efforts were highly recognized by the general secretary, Mr. Zhao Houlin of ITU.

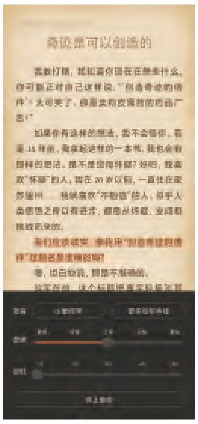
**MIUI Accessibility Functions**

To meet the diverse needs of our users, starting from MIUI8, Xiaomi has set up a special taskforce in support of the development of accessibility functions — involving over a thousand engineers from Xiaomi. We have formed one of the world's largest information accessibility communication groups to listen to the opinions of visually impaired groups and quickly respond to their needs through related product development. In an evaluation conducted by Ifeng.com, a global leading new media platform, Xiaomi's level of accessibility ranked first both in Chinese phone brands and in phone brands running on the Android operating system. Our dedication to accessibility has also inspired many other Internet companies.

MIUI11 has been continuously upgrading its accessible functionalities:

- Talkback, which is a screen reader built into Android devices that provides users with voice feedback to enable people with visual impairments to access smartphones — Xiaomi also added a voice tag to all key buttons;
- Universal remote controls with voice-prompt functionality; and
- The facial recognition and broadcast functions of the camera in accessible mode have been upgraded. In addition to prompting when the user's face is in view, it can now detect the number of people in view.

Furthermore, we have formed a cross-departmental VR team to develop an accessibility mode in Mi TV, and all our products are promoted to adapt to the AA* standard of the Web Content Accessibility Guidelines (WCAG)*. This helps optimize the accessibility experience of users by conforming to global website accessibility standards. Meanwhile, we use our app store's influence within the developer ecosystem, and encourage other developers in the market to respond to the adaptation and popularization of accessibility functions. Incentives include offering better exposure resources and VIP customer service.



In 2019, Xiaomi cooperated with another technology company to further improve the quality and experience of text-to-speech reading services offered by the Duokan Reading App, improving the reading experience for the visually impaired by achieving a high degree of accuracy, clear pronunciation and excellent sound quality.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


Xiaomi App Store has set up a specialized section for visually-impaired people, consisting of a total of 26 specially designed apps. This can be accessed from the homepage of the Xiaomi App Store.

*Notes:

1. Web Content Accessibility Guidelines (WCAG) is developed with a goal of providing a single shared standard for web content accessibility that meets the needs of individuals, organizations, and governments internationally. (Available at: http://www.w3.org/WAI/standards-guidelines/wcag/)
2. WCAG 2.0 consists of twelve guidelines organized under four principles (websites must be perceivable, operable, understandable, and robust). Each guideline has testable success criteria. In order to meet the needs of different groups and different situations, three levels of conformance are defined: A (lowest), AA, and AAA (highest). (Available at: https://www.w3.org/TR/WCAG20/)

**The 257$^{th}$ Golden Mi Award — "See"**

**Xiaomi is committed to assisting quality small-to-medium developers focused on public welfare, and designed the Golden Mi Award to help promote such apps. The 257$^{th}$ Golden Mi Award was awarded to a game that simulates the visual and tactile sensations of the visually impaired — "See", so that players can experience the difficulties encountered in the daily life of visually impaired people. This helps to raise public awareness of accessibility.**

In particular, to deepen our understanding of the needs of the visually-impaired, we invited visually impaired users to visit our headquarters at Nanjing and also to the Xiaomi Family Banquet, so they could have the opportunity to directly communicate with our management and engineers. We also incorporated information accessibility modules into Xiaomi's management trainee programs and played documentaries about people with disabilities in our Beijing and Nanjing offices for our product managers and engineers.

## 5. Gift Freshness to Environment Management

By following a strategy of acting responsibly for our products and the environment, Xiaomi continuously minimizes the environmental impacts of its business operations. On this note, Xiaomi strictly abides by national environmental laws and regulations, including the *Environmental Protection Law of the People's Republic of China* 《中華人民共和國環境保護法》 and the *Energy Conservation Law of the People's Republic of China* 《中華人民共和國節約能源法》; and embraces the principle of green operations throughout its product life cycle management to make the most efficient use of resources and lower emissions. At the 2019 China E-commerce Conference, the Ministry of Commerce of the PRC started the *E-commerce Green Development Initiative* 《電子商務綠色發展倡議書》 to promote green consumption, green logistics, green packaging and recycling among e-commerce service providers. As one of the first companies to join this initiative, Xiaomi hopes to promote more green operation across the industry.

### 5.1 Green Operation and Management

**Use of Resources and Energy**

Xiaomi's main energy consumption comes from the operation of offices and data centers. In 2019, Xiaomi moved into Xiaomi Science and Technology Park, and adopted a green and energy-saving operation strategy and adopted a systematic approach for resource management. At the same time, on the product side, we actively promote the use and sale of energy-saving products through a variety of promotional methods, helping increase consumers' awareness of energy-saving products.

In the office area, we continue to raise employees' awareness about saving water, electricity and paper. In 2019, we invested in water-efficient facilities and utilized reclaimed water. In addition, we installed solar hot water systems to reduce our fuel-based energy consumption, and helped save paper through the adoption of double-sided printing.

**We constructed the ground of our sidewalks, parking lots, and squares with permeable materials, and built outdoor green space 100mm below road level such that rainwater can better infiltrate into the green space to supplement underground water reserves.**

Xiaomi has made great efforts in making its data centers more green and energy-efficient. For self-owned data centers, the measures we have taken include, but are not limited to: purchasing servers that demonstrate high power efficiency and energy-saving capability, as well as a platinum-grade consumption conversion rate; setting up a power consumption monitoring system to better manage power consumption; using water-cooled air conditioners for cooling; implementing waterside natural cooling technology in winter to lower energy consumption from chillers and using natural cooling in spring and autumn. Moreover, we are promoting the replacement of physical servers with more efficient cloud servers. Meanwhile, when renting data centers and cloud servers, their energy-saving performance has been one of our key criteria for selection.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

At Mi Homes, we have taken a series of environmentally friendly measures and initiatives. For example, we have used sustainable materials for the decoration of Mi Homes, gradually replaced plastic shopping bags with paper-based ones, and trialed electronic price tags in place of traditional, physical tags. At our events, we marked and designated bottles of water for guests as an initiative to reduce waste by ensuring that guests finish their own bottle before drinking from a new bottle. In order to boost sales of green products, we have made special-purpose promotional flyers covering 15 green product categories and distributed them to customers on-site.

We offer over 40 types of energy-saving products that meet relevant national subsidy policies in Mi.com. As of December 31, 2019, Xiaomi sold a total of 21,996 government-subsidized energy-saving products. We also recommended 16 types of green application in our App Store including green travel, bike sharing, and other environmental protection apps, which have attracted over 30 million views.

### Waste Disposal

At Xiaomi, we pay close attention to waste disposal management and make an effort to continuously implement new measures for waste disposal. For example:

- We have deployed larger trash bins to help reduce the total number of bins needed in public areas. It is estimated that this has reduced the use of 937,500 disposable plastic bin liners in Xiaomi Science and Technology Park in 2019.
- Xiaomi is a strong advocate for garbage sorting, and has engaged with a professional waste-sorting company to process and sort daily waste produced in our office. Our kitchen waste is processed into granules for recycling purposes.
- We have chosen qualified companies to process waste toner cartridges, ink cartridges and lead-acid batteries and other hazardous waste. Before disposal, we follow appropriate procedures to clean up data stored in any waste devices to prevent any potential customer information leakage.


**This year, our AI assistant "小愛同學" introduced the guidance function for garbage sorting, which has received wide acclaim from users. Meanwhile, we recommended 14 apps relating to garbage-sorting in our App Store, attracting over 20 million views.**

### Recycling Measures

We are committed to resource recycling. We implement a centralized system for recycling used office computers. For instance, personal computers that are no longer suitable for office use will either be donated or sold to staff internally or to recyclers. In 2019, 100 personal computers were donated, and 474 used personal computers were purchased by employees internally.

In addition, Xiaomi offers the Mi Exchange program for trading smartphones, Mi notebooks and Mi Pads in for new devices, promoting recycling of e-waste while benefiting customers.

Xiaomi also offers e-waste take-back and recycling services overseas. For instance, in India, when an electronic product reaches the end of its useful life, customers can return it to Xiaomi for recycling without having to pay any recycling fee.

## 5.2 Product Eco-designs

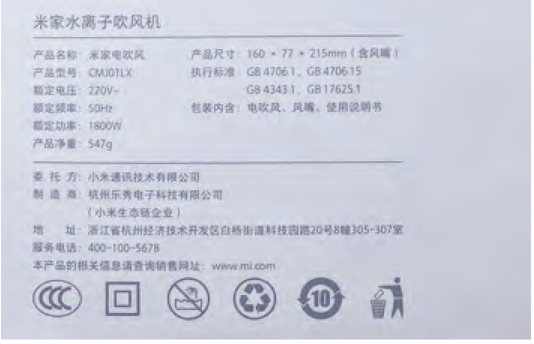
### Energy-saving Designs

- **Ultra Power-saving Mode**: Through a synchronized process and by limiting back-end activities, the overall energy consumption of Xiaomi's operating system can be further reduced.
- **All Interface Dark Mode (MIUI)**: MIUI enables an interface in black, which significantly reduces power consumption in batteries.

### Minimizing the Use of Packaging

To reduce packaging, this year, Xiaomi introduced One Paper Box packaging that uses only one sheet of paper to form a package compared to the normal package box that normally consist of an outer box and a plastic liner. This design saves up to 40% of packaging materials compared to ordinary packaging methods. The packaging size reduction and the simplified packaging procedure helps reduce transportation costs, inventory storage costs as well as labor costs. As of the end of 2019, we designed more than 10 different box types of One Paper Box packaging, and plan to apply it to more product types.


Taking Mi Bluetooth Speaker as an example, the original packaging was made up of an outer box and an inner lining, while the new paper box packaging is made up of only one piece of paper. This new packaging used 30% less material compared to the original design.




This year, we added environmental protection labels on the packaging of Xiaomi products as a new initiative to facilitate waste sorting and to raise public awareness of green packaging.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Table of Environmental Key Performance Indicators

Unless otherwise specified, environmental key performance indicators cover the Group's main offices and self-operated Mi Homes in mainland China.

*1. Emissions*

| | |
|---|---|
| **Total GHG emissions (Scope 1 and 2) (tons)** | **22,782.26** |
| Direct GHG emissions (Scope 1) (tons) | 283.42 |
| Indirect GHG emissions (Scope 1) (tons) | 22,498.84 |
| **Total GHG emissions in offices per floor area (tons per square meter)** | **0.042** |
| **Total GHG emissions in Mi Homes per floor area (tons per square meter)** | **0.11** |
| **Hazardous waste (tons)** | **1.00** |
| **Hazardous waste per employee (tons per employee)** | **0.000066** |
| **Non-hazardous waste (tons)** | **1,457.94** |
| **Non-hazardous waste per employee (tons per employee)** | **0.07** |

Notes:

1. Since September 2019, some Xiaomi offices of Xiaomi in Beijing have moved into the Xiaomi Science and Technology Park. Therefore, the key environmental performance indicators for Xiaomi offices in Beijing this year include both the original offices and the Xiaomi Science and Technology Park.
2. Due to its operational features, the significant air emissions of the Group are GHG emissions arising mainly from natural gas and electricity derived from fossil fuels.
3. The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data is presented in carbon dioxide equivalent and is based on the "2017 Baseline Emission Factors for Regional Power Grids in China" issued by the Ministry of Ecology and Environment of the People's Republic of China, and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" (2019 Edition) issued by the Intergovernmental Panel on Climate Change (IPCC).
4. GHG emissions (Scope 1) arise mainly from the consumption of "direct energy" (natural gas) by the Group's operation. GHG emissions (Scope 2) arise mainly from the consumption of "indirect energy" (purchased or acquired electricity) by the Group's operation, which includes the electricity consumption of main offices and self-operated Mi Homes in mainland China.
5. Hazardous waste produced by or during the Group's operation mainly includes waste fluorescent tubes, waste lead-acid accumulators, waste toner cartridges and waste ink cartridges from office printing equipment. Waste toner cartridges and waste ink cartridges are collected and disposed of by printing suppliers, whereas waste fluorescent tubes and waste lead-acid accumulators are disposed of by qualified waste recycling vendors.
6. Non-hazardous waste produced by or during the Group's operation mainly includes office waste and domestic waste, which are disposed by the property management company.

2. *Energy and resources consumption*

| | |
|---|---|
| **Total comprehensive energy consumption (MWh)** | **34,282.58** |
| Direct energy consumption (MWh) | 1,449.47 |
| Indirect energy consumption (MWh) | 32,833.11 |
| **Total energy consumption in offices per employee (MWh per employee)** | **1.61** |
| **Total energy consumption in Mi Homes per floor area (MWh per square meter)** | **0.18** |
| **Running water consumption (tons)** | **144,803.29** |
| **Running water consumption per employee (tons per employee)** | **9.38** |
| **Total packaging materials used for finished products (tons)** | **74,337.82** |
| **Total packaging materials used for finished products per revenue in million RMB (tons/million RMB).** | **0.36** |

Notes:

1. Comprehensive energy consumption is calculated using electricity and natural gas data with reference to the coefficients in the National Standards of the People's Republic of China "General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008) ".
2. Direct energy consumption arises from the consumption of natural gas during the Group's operation. Indirect energy consumption arises from the consumption of purchased electricity during the Group's operation.
3. The Group's water resources consumed come from the municipal water supply. For water resources, in 2019, the Company had no issues in sourcing water.
4. Total packaging material used for finished products is the total amount of packaging materials used for smartphones, TVs and major products of ecosystem products.

## 5.3 Green Supply chain

As a responsible core company of the supply value chain, Xiaomi hopes to work with partners to jointly improve the CSR performance of our partners. We hold our suppliers to high standards of excellence as are defined in relevant laws and recognized international standards and conventions. This year, accepting Xiaomi's CSR values has become an important consideration for supplier selection. At the same time, we also gradually carried out CSR audits on our core suppliers. On this basis, we provided suppliers with CSR management recommendations to help them further improve their management performance.

In accordance with relevant laws and regulations as well as comprehensive review of Xiaomi's CSR risks, under the guidance of the *Responsible Business Alliance Code of Conduct* (RBA，《責任商業聯盟行為準則》), *Supply Chain Sustainability Guideline Governing Telecom Industry* 《電信行業供應鏈可持續指南》, and other relevant international standards, Xiaomi has set up its own *Supplier Social Responsibility Code of Conduct* 《供應商社會責任行為準則》 and *Supplier Social Responsibility Agreement* 《供應商社會責任協議》 to impose CSR management requirements on suppliers. The requirements cover 13 dimensions, including business ethics, child labor protection, environment management, and labor rights. As of the end of 2019, 90% of our suppliers had signed the *Supplier Social Responsibility Agreement* 《供應商社會責任協議》with us. Meanwhile, in 2019, we conducted CSR audits on our key suppliers, covering the following five aspects: business ethics, labor, environmental protection, health and safety, and management systems. We put forward rectification requirements for all suppliers being audited targeting at identified potential risk, including conducting a root cause analysis of non-compliance, formulating rectification measures within one week upon receiving the audit report, and making monthly reports of improvement to us until the non-compliance matters have been successfully rectified. Xiaomi also conducted coaching sessions for audited suppliers on non-compliance matters to enhance the suppliers' understanding of social responsibility management.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This year, Xiaomi established a Procurement Committee, introduced a new non-production procurement system for the group, and launched an online procurement platform to optimize procurement procedures and enhance supplier management. At the 2019 Xiaomi Core Supplier Conference, Xiaomi shared the concept of green supply chain and introduced its CSR management policies and achievements to more than 500 suppliers.

## 6. Gift Happiness to Everyone

Xiaomi is committed to letting everyone in the world enjoy a better life through innovative technology. We cherish the wellbeing of every employee, and aim to promote happiness to all.

### 6.1 Employee Wellbeing

**Recruitment and Employment**

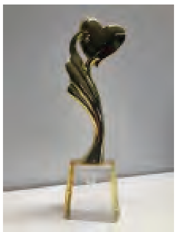
As of the end of 2019, we had 18,170 employees from 28 countries, working in over 30 countries. Our management and policies regarding recruitment, employment, dismissal, salary and benefits, attendance, equal opportunity, anti-discrimination and diversity are in strict accordance with the *Labor Law of the People's Republic of China* 《中華人民共和國勞動法》, *the Labor Contract Law of the People's Republic of China* 《中華人民共和國勞動合同法》, and other applicable laws and regulations and international practices of the regions where it operates. In 2019, we updated our Employee Handbook (《員工手冊》) to better ensure that key policies are clearly and consistently communicated, and we actively prepared for the establishment of Xiaomi's labor union in 2020 including setting up a labor union preparation team.

We embrace and adhere to the principles of fair competition and meritocracy. For recruitment processes and compensation determination, Xiaomi treats each job applicant and employee equally and does not discriminate based on his or her race, ethnicity, age, gender, marital status, religious belief, or any other inappropriate basis. Xiaomi engages in labor contracts with employees based on the principles of equality, free will, consensus and integrity.

We abide by the *Special Rules on Labor Protection of Female Employees* 《女職工勞動保護特別規定》 and safeguard female employees' rights and benefits during pregnancy, the perinatal period and lactation. To further that end, salary reduction or dismissal of female employees during these periods without reasonable justification is prohibited.

At Xiaomi, we greatly respect every employee's dignity and personality as we forbid any form of insult and discrimination, and strictly prohibit forced labor or bullying, insulting or exploitative behavior. We strictly forbid child labor. We have formulated relevant policies following applicable laws and established a set of procedures to avoid the risk of child labor.

Moreover, we actively promote equal opportunities in the way of employment of persons with disabilities, and have provided suitable jobs for 181 persons with disabilities from 2017 to 2019. We also provide occupational training and psychological counseling to employees in need, to address problems that they encounter at work and beyond. Our efforts have gained social recognition. In 2019, Xiaomi was awarded the "Enterprise Award for Caring and Helping the Disabled" by Beijing Social Security and Employment Service Center for the Disabled.



### Health and Safety

Our employees are our most valuable assets and we place great importance on employees' health and safety. In accordance with *the Production Safety Law of the People's Republic of China* 《中華人民共和國安全生產法》, the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* 《中華人民共和國職業病防治法》, the *Provisions on the Supervision and Administration of Occupational Health at Work Sites* 《工作場所職業衛生監督管理辦法》, and other national and regional laws and regulations and industry standards that apply, we established a series of work processes and policies to ensure the safety of employees and their property. To better respond to such emergencies as public security incidents, fire disasters, natural disasters, and serious failures of equipment and facilities, in 2019, we set up a project safety management emergency response working group and released the *Mi Project Emergency Response Manual* 《小米項目應急執行手冊》. We also actively promote employee safety in other countries and regions, for instance, in India, we provide transportation for all female employees working beyond 8:00 PM.

### Employee Benefits

We continue to improve our benefit system for employees. In addition to social insurance and welfare prescribed by national and regional regulations, we actively promote the equity incentive mechanism. In 2019, the Board of Directors awarded a total of 77,911,031 Award Shares to Selected Participants, covering 1,136 person-times. In addition, to commemorate our inaugural entry on the Fortune Global 500 list, the Board resolved on July 19, 2019 to award a total of 20,538,000 Award Shares to 20,538 Selected Participants. Meanwhile, we provide supplementary commercial insurance, including medical and accident insurance, as well as additional insurance for employees participating in our corporate activities such as "Xiaomi Football Super League", "Xiaomi Basketball Super League" and "Xiaomi Outdoor". For employees' family members, additional commercial insurance plans are available for purchase. Employees are also entitled to free annual health checks, birthday benefits, and a Mid-autumn Festival gift box, gift boxes for the inaugural ceremonies of the Xiaomi Science and Technology Park as well as health-promoting seminars and activities. We also provide diversified benefits for our overseas employees. For instance, in India, we provide health insurance to all employees, and extend coverage to their spouse, parents/parents-in-law and children.

Notes:

1. "Selected Participants" refer to any Eligible Person approved for participation in the Share Award Scheme and who has been granted any Award pursuant to the Share Award Scheme."

2. "Eligible Person(s)"refers to any individual, being an employee (whether full time or part time), director (including executive, non-executive and independent non-executive directors), officer, consultant, advisor, distributor,contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliates (as defined in the Share Award Scheme) who the Board or its delegate(s) considers, in their sole discretion, to have contributed or will contribute to the Group.

**In order to help employees better understand our company's medical benefits protection scheme, we have organized a series of activities for the Taikang Pension Service Month including online live courses, offline training sessions, departmental salons and other programs.**

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

**Work Environment**

Xiaomi strives to offer a safe and comfortable work environment for our employees. We value our employees' opinions, and provide a range of communication channels for our employees to lodge their feedback including an internal online platform, complaint boxes, Employee Committee and our WeChat official account.

**In order to improve the air quality in our office space, we have placed more than 900 air purifiers and 19,720 green plants in the Xiaomi Science and Technology Park.**

**Talent Cultivation**

Xiaomi attaches great importance to developing talents and firmly believes that whether it is in operation management, innovation, R&D or marketing, the fight for talent is at the core of its competiveness. In the process of rapid business development, Xiaomi cultivates key talents and provides comprehensive trainings for employees worldwide. Our training courses cover corporate culture, advanced science and technology, management skills, scientific thinking methods, etc., all aiming to help employees improve their professional and leadership skills.

On August 21, 2019, Xiaomi officially announced the establishment of Qinghe University. Centering on the group's strategic goals, we are committed to creating an enterprise university with Xiaomi's characteristics. When offering training to Xiaomi's management team at the beginning of 2020, our Chairman and CEO, Mr. Lei Jun, emphasized that the purpose for establishing Qinghe University is to fulfill the most important task of developing talents, training young talents, and empowering the organization with strong competitiveness. At the same time, we tailored training programs for different employee groups, for example, we have a "YOU" program for fresh graduates, the "Mi New Generation" program for management trainees, the "Spark Camp" program and the "Ignite Plan" for management.

In 2019, Xiaomi started the "YOU" program in Beijing, Wuhan and Nanjing for fresh graduate employees, with "YOU" standing for "Young, Outstanding, and Unique", and we believe our outstanding and young talents will form the foundation of Xiaomi's future success. The 6-month training aims to help newcomers quickly integrate into the Company and achieve all-round development by providing corporate culture and business training sessions, work experience in Mi Home, and team development activities. A total of 942 newcomers have already participated in this program.

The "MI New Generation" management trainee project aims to recruit and train outstanding fresh college graduates. The project deepens the management trainee's understanding of the Company and business through multi-dimensional trainings including 23 lectures given by industry experts, 9 themed seminars, customer service experience and other capacity-building activities.


The Spark Camp is a three-month training program for new managers. In 2019, 371 managers were trained. The training is divided into four parts covering lessons for managers, online reading clubs, management public lessons, and management debates. It aims to help new managers improve their skills and become excellent leaders in the following four areas: role positioning, goal achievement, people management, and team building.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, taking reference to Xiaomi's real management situations, our "Management Theme Month" offers management a platform to share their experiences, challenges, and feedback on key management issues so as to improve employees' leadership skills.

### Talent Management

In order to further equip management level employees with strong comprehensive skills, stimulate overall organizational vitality, optimize inter-departmental coordination, and better support the Group's strategic execution, Xiaomi actively promotes the rotation of management level employees. The company provides a strong pre-post and mid-post empowering environment for rotating employees, and puts in place a series of mechanisms to maintain stable business operations.

At the same time, Xiaomi attaches great importance to the construction of talent teams, focusing on the establishment of reserve talent teams, the training of young employees, the introduction of external key talents and the cultivation of talents in key posts. By supporting high-potential talents and giving them more opportunities and space for professional development, the company's organizational capabilities and vitality are continuously improving, continuous innovations are made, and a talent base is guaranteed for the company's sustainable development.

### Work-life Balance

Work-life balance is an important and highly valued culture at Xiaomi. Xiaomi has 37 employee-oriented clubs that organize frequent events for a wide range of themes and activities. In 2019, Xiaomi organized 22 festive celebration activities, over 780 recreational activities and over 200 annual competitions in a range of areas.


In particular, to enrich the lives of new employees and help them quickly adjust to the new environment, over 460 newcomers were invited to several landmark events this year, including the inaugural ceremony of the Xiaomi Science and Technology Park, press conferences for new product releases, and volunteering activities.

## 6.2 Social Contribution

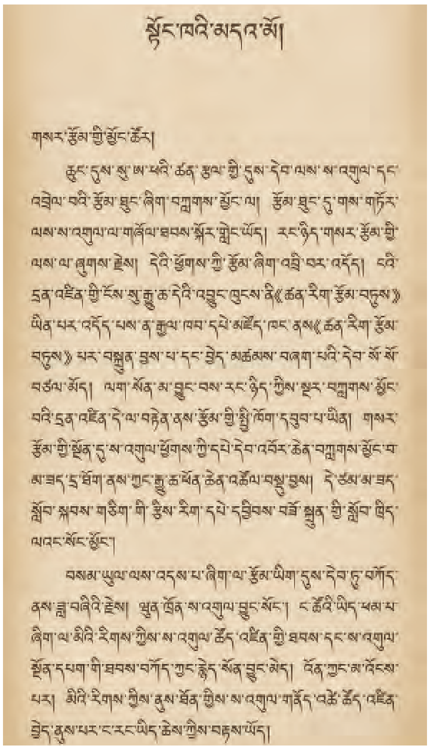
Since its founding in 2010, Xiaomi has been committed to giving back to the community and has actively engaged in charity work. In 2019, Xiaomi systematically carried out community investment work in the fields of products and derivative responsibilities, employee participation, social participation and charitable donations, actively fulfilled corporate social responsibilities, and passed on happiness to society.

### Product and Derivative Responsibilities

Xiaomi is constantly exploring the integration of public welfare and products in its innovation and development. We firmly believe that the combination of industrial advantages and social responsibility is an important way to continuously create social value.

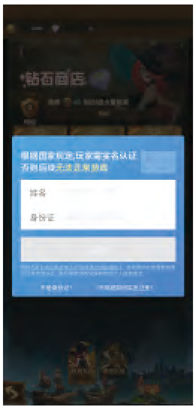

**Earthquake warning function:** swiftly sending alerts to users about the arrival of an earthquake after the detection of earthquake shock-waves increases users' chance of escape. It not only informs users of the earthquake magnitude and the location of nearby shelters, but also send tips for proper emergency response measures. This function has been integrated into smartphones on MIUI 11 and Mi TVs. Xiaomi is the first company to integrate the earthquake alert function into its smartphone operating system and AIoT platform, and has announced that it will share its development experience with other technology companies for free. This function has covered 2.2 million square kilometers of earthquake-prone regions in China, accounting for 90% (over 660 million people) of China's earthquake-prone regions. We will continue to expand the coverage of our earthquake warning services.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



**Tibetan language reading services:** Xiaomi is the first in the industry to apply refined Tibetan typesetting, which allows Tibetan users to experience high-quality digital reading services. Moreover, to address the Tibetan users' difficulty in finding Tibetan books, Duokan Reading will partner with relevant Tibetan publishing institutions to introduce native Tibetan reading materials. It plans to offer more quality content by fully using its digital strengths including launching a special catalogue on Duokan Reading app. Furthermore, Duokan Reading will increase subsidies in order to provide users with more free Tibetan reading materials. In addition, to better meet the learning needs of local children, Xiaomi converted 100,000 paper books into e-books using its Duokan Reading App and sent children in Lhasa 50 VIP reading accounts.


**Public welfare startup ads:** Xiaomi received a thank you note from the International Fund for Animal Welfare for Xiaomi's support of wildlife protection through advocating wildlife protection in startup ads of Xiaomi TV.



The Xiaomi Game Center actively supports identity verification and child protection. Games operated on the Xiaomi Game Center's platform all apply identity verification for users during user login and payment. It also places restrictions on the length of time spent playing and payments of minor users. For instance, if you are a minor user, the daily time spent on games during public holidays shall not exceed 180 minutes, and during non-holiday time shall not exceed 90 minutes. In addition, children under the age of eight are forbidden to make payments in games.

### Employee Participation

Our employees actively participate in social public welfare activities and Xiaomi actively creates platforms and opportunities for employees to contribute personally to public welfare.


Xiaomi worked with the NGO "New Citizen Program" to support the Weilan Library program, a public welfare project aimed at providing migrant children with extracurricular books. We launched fundraising within the company to purchase well-selected books, and guaranteed the book supplies of the 7th Weilan Library throughout the year. We also encouraged our employees to actively participate in the Weilan Library volunteer project by serving as volunteer library assistants during lunch break. In addition, we welcomed "left-behind children" (children who live in the village while their parents work in cities to earn money and provide for their families) from the New Citizens Program to Beijing and to our company, hoping that the experience of modern technology can ignite dreams in their hearts for a better future.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Social Participation

Xiaomi actively participates in and organizes social welfare activities on an international scale, and hopes that through its own efforts, it will have a positive impact on social welfare.

**Disability employment project:** We cooperated with social enterprises to conduct employment project for physically-impaired people and provided 19 jobs in Xiao AI Mark for physically and visually-impaired people. In addition, together with Qualcomm, we provided training support for disabled employees. We will provide more jobs for physically-impaired people in our AI businesses.


**Mi Orange Run:** In December 2019, Xiaomi, together with a number of UK charities, organized a charity run called 'Helping Handsets'. The aim of the run was to encourage people to donate their unused phones to charities and raise citizen awareness about recycling. Dressed in Xiaomi's signature color of orange, Mi fans from London enjoyed taking part in the charity campaign, where many participants donated their unused phones.


**"Save the Lake" initiative:** Xiaomi India joined the "Save the Lake" initiative, and has helped with the restoration of the lake Kempambudhi by cleaning, planting saplings and carrying out construction projects on the shores of the lake. Xiaomi India even launched a phone in lake blue to support this cause. In another water-saving initiative, Xiaomi India donated INR7.665 million and planted over 180,000 trees to revive a dying river — Cauvery Calling, which supports the lives of 84 million people.

### Charity Donation

Xiaomi is devoted to giving back to society and actively carries out social welfare donation projects. In 2019, Xiaomi donated approximately RMB22 million, and organized various public welfare activities. In 2019, Xiaomi was awarded the "Award of Excellence 2018/2019" by the Community Chest for its excellent charity work.

*(1) Poverty alleviation*

In 2019, we have given our support to the following key projects for the cause of poverty alleviation:

- Donated RMB100,000 to support students living in poverty in Keyouqianqi, Inner Mongolia;
- Donated RMB100,000 to set up the "Xiaomi" education fund for Dongfa Village, Fuyuan City, Heilongjiang Province;
- Contributed a total of RMB80,000 raised from domestic charity sales to a public welfare program — "Teach for China";
- During the Singles' Day period, our employees collected and sold 250kg of abandoned courier boxes and donated the money gained to "left-behind children";
- Donated 500 items through the employee flea market activity; and
- Gave primary school students from less-privileged family backgrounds the chance to experience advanced technology products in local Mi Homes

*(2) Social donation*


From 2016–2019, Xiaomi donated over 80,000 books to schools, over 1,000 sets of stationary and more than 100 computers to 20 schools in Tibet and Xinjiang, and built 20 Mi Libraries for local students, benefiting over 20,000 students.


In 2019, Xiaomi India cooperated with a local community organization and donated 110,000 notebooks to underprivileged children across India, creating the Guinness World Record for the world's "Largest single donation of school supplies in 24 hours".

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


In 2019, Xiaomi India donated INR1,500,000 in support of the disaster relief for the Assam Flood, and set up Mi Charging stations across cities for citizens affected by cyclone Fani.

Xiaomi India has been committed to raising public awareness about Dengue Fever through providing educational programs on a local TV channel, and provided Dengue Fever Protection kits to a total of 16,000 underprivileged children in Bangalore and Mumbai as well as medical insurance worth INR23,000 to any child being diagnosed with Dengue Fever.

*(3) Exploration for win-win cooperation*

Led by the Corporate Social Responsibility Team of the Xiaomi Group's Public Relations Department, Xiaomi donated two batches of goods to the social enterprise Shanghai Shantao Charity Store. Together with Shantao, we will explore the win-win situation when bringing together the unused goods in circulation, community charity shops, and the need to address community disability employment. Meanwhile, we're innovating a model of public welfare and exploring sustainable operation models of win-win cooperation.


In cooperation with Shanghai Youren Foundation and Beijing Shengbo Disability Social Service Center, our Corporate Social Responsibility Team of the Public Relations Department, donated engineering machines to Yinchuan City, Ningxia province and Baiyin City, Gansu province, and launched smartphone teaching projects to assist more people with visual impairment to enter the era of smartphones and experience the convenience and equal experience brought by smartphones, smart speakers, and smart home products. The project explores peer-to-peer teaching assistance models for the physically-impaired. At the same time, donations have reduced e-waste and extended the life of mobile phones. This donation-education model has attracted the attention of the China Federation of Disabled Persons across the country.

*(4) The Xiaomi Public Welfare Foundation*

In 2019, The Xiaomi Public Welfare Foundation was established and organized a series of public welfare projects, aiming to make a greater contribution to the fields of poverty alleviation, educational support as well as disaster relief.


On August 13, 2019, Xiaomi set up the "Xiaomi Education Fund" for Dongfa Village, Fuyuan City, Heilongjiang Province. The program set special education funds for orphans, minors from disaster-stricken families, and education grants for high school students being admitted to universities.


On October 16, 2019, Xiaomi donated 29,000 copies of selected children's books to six schools in Hetian City, Xinjiang province, a national level designated poverty-stricken area.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT


On June 17, 2019, a magnitude 6.0 earthquake hit Changning County, Yibin, Sichuan province, killing 13 people and affecting more than 240,000 people. Xiaomi transported a large amount of relief material including interphones, mobile power supply, LED flashlights and umbrellas to the disaster area within 24 hours of the disaster.


Typhoon Lekima landed on the coast of Zhejiang Province on August 10, 2019, affecting a number of provinces in China with a maximum wind force of 16. In response to Typhoon Lekima, Xiaomi developed a cross-departmental disaster relief plan. Meanwhile, free services to citizens in earthquake-stricken areas such as free charging and free drinking water was provided in local Mi Homes.


In 2019, public service advertisements have been added to the startup ads of Xiaomi TV. From September 1st to November 27th, these ads were played 271 million times, reaching 57.2 million people.

In 2019, we organized visits to nursing homes to help the elderly with chores and familiarize them with the basic functions of technological products such as smartphone.

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

## Opinion

### What we have audited

The consolidated financial statements of Xiaomi Corporation (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 183 to 325, which comprise:

- the consolidated balance sheet as of December 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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*T: +852 2289 8888, F: +852 2810 9888,* www.pwchk.com

# INDEPENDENT AUDITOR'S REPORT

### Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to the classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss".

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss"**<br><br>Refer to Note 3.3 and Note 19 to the consolidated financial statements.<br><br>During the year ended December 31, 2019, the Group recognized fair value changes on the following investments in profits or losses: (i) equity investments in unlisted companies other than those accounted for using equity method, and (ii) convertible redeemable preferred shares or ordinary shares with preferential rights investments in unlisted companies (collectively the "**Unlisted Securities**"), amounting to RMB2,494,191,000 and RMB13,406,909,000, respectively. The total amount of Unlisted Securities as of December 31, 2019 was RMB15,901,100,000, accounting for 9% of the Group's total assets. | We understood and evaluated the key controls over the capturing, measurement and recording of the Unlisted Securities investments.<br><br>For the classification and initial recognition of the Unlisted Securities, we have performed the following procedures:<br><br>(1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees on a sample basis to understand the commercial rationale for these Unlisted Securities investments;<br><br>(2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments on a sample basis. |

# INDEPENDENT AUDITOR'S REPORT

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| The classification and initial recognition of the Unlisted Securities require management to analyze certain complex contract terms and make judgments to determine the classifications of the above financial assets, based on the Group's business models of managing these financial assets and the contractual terms of the cash flows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents.<br><br>Management engaged an external valuer to assist to determine the fair value of these Unlisted Securities. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs.<br><br>We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and fair value determination of the Unlisted Securities. | For the assessment of fair value determination of the Unlisted Securities, we involved our internal valuation specialists to perform the following procedures:<br><br>(1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group;<br><br>(2) We interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities;<br><br>(3) We assessed the reasonableness of assumptions and inputs used in fair value determination of Unlisted Securities, including expected volatility, risk-free interest rate, discounted for lack of marketability;<br><br>(4) We recalculated the fair values of Unlisted Securities on a sample basis; and<br><br>(5) We tested the accuracy of the fair value changes on investments measured at fair value through profit or loss for the year on a sample basis.<br><br>We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidences. |

# INDEPENDENT AUDITOR'S REPORT

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, March 31, 2020

# CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2019

(Expressed in Renminbi ("RMB"))

| | Note | Year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Revenue** | 6 | 205,838,682 | 174,915,425 |
| Cost of sales | 8 | (177,284,649) | (152,723,486) |
| **Gross profit** | | 28,554,033 | 22,191,939 |
| Selling and marketing expenses | 8 | (10,378,073) | (7,993,072) |
| Administrative expenses | 8 | (3,103,901) | (12,099,078) |
| Research and development expenses | 8 | (7,492,554) | (5,776,826) |
| Fair value changes on investments measured at fair value through profit or loss | 19(iv) | 3,813,012 | 4,430,359 |
| Share of losses of investments accounted for using the equity method | 11(b) | (671,822) | (614,920) |
| Other income | 7 | 1,265,921 | 844,789 |
| Other (losses)/gains, net | | (226,399) | 213,281 |
| **Operating profit** | | 11,760,217 | 1,196,472 |
| Finance income, net | 10 | 402,429 | 216,373 |
| Fair value changes of convertible redeemable preferred shares | 35 | — | 12,514,279 |
| **Profit before income tax** | | 12,162,646 | 13,927,124 |
| Income tax expenses | 12 | (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):** | 13 | | |
| Basic | | 0.423 | 0.843 |
| Diluted | | 0.410 | 0.044 |

*The notes on pages 191 to 325 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

(Expressed in RMB)

| | Note | Year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **10,102,950** | 13,477,747 |
| **Other comprehensive income/(loss):** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Share of other comprehensive income of investments accounted for using the equity method | 11(b) | **9,279** | 191,449 |
| Currency translation differences | | **(77,430)** | (648,746) |
| *Item that will not be reclassified subsequently to profit or loss* | | | |
| 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 |

*The notes on pages 191 to 325 are an integral part of these consolidated financial statements.*

# CONSOLIDATED BALANCE SHEET

As of December 31, 2019

(Expressed in RMB)

| | Note | As of December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Land use rights | | — | 3,402,968 |
| Property and equipment | 14 | 6,992,331 | 5,068,053 |
| Intangible assets | 15 | 1,672,002 | 2,061,192 |
| Investments accounted for using the equity method | 11(b) | 9,300,507 | 8,639,238 |
| Long-term investments measured at fair value through profit or loss | 19 | 20,679,363 | 18,636,208 |
| Deferred income tax assets | 34 | 1,283,415 | 1,312,245 |
| Other non-current assets | 17 | 6,162,503 | 95,485 |
| | | 46,090,121 | 39,215,389 |
| **Current assets** | | | |
| Inventories | 23 | 32,585,438 | 29,480,685 |
| Trade receivables | 21 | 6,948,567 | 5,598,443 |
| Loan receivables | 20 | 12,723,503 | 10,293,645 |
| Prepayments and other receivables | 22 | 19,837,018 | 20,914,946 |
| Short-term investments measured at fair value through profit or loss | 19 | 16,463,390 | 6,648,526 |
| Short-term bank deposits | 24(c) | 21,523,043 | 1,365,991 |
| Restricted cash | 24(b) | 1,538,266 | 1,480,178 |
| Cash and cash equivalents | 24(a) | 25,919,861 | 30,230,147 |
| | | 137,539,086 | 106,012,561 |
| **Total assets** | | 183,629,207 | 145,227,950 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 25 | 388 | 377 |
| Reserves | | 81,330,186 | 71,322,608 |
| | | 81,330,574 | 71,322,985 |
| **Non-controlling interests** | | 327,102 | (72,856) |
| **Total equity** | | 81,657,676 | 71,250,129 |

# CONSOLIDATED BALANCE SHEET

As of December 31, 2019

(Expressed in RMB)

| | Note | As of December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 33 | 4,786,856 | 7,856,143 |
| Deferred income tax liabilities | 34 | 579,902 | 777,645 |
| Warranty provision | | 667,857 | 559,016 |
| Other non-current liabilities | 29 | 3,756,211 | 2,844,859 |
| | | 9,790,826 | 12,037,663 |
| **Current liabilities** | | | |
| Trade payables | 30 | 59,527,940 | 46,287,271 |
| Other payables and accruals | 31 | 9,101,343 | 6,312,770 |
| Advance from customers | 32 | 8,237,119 | 4,479,522 |
| Borrowings | 33 | 12,836,555 | 3,075,194 |
| Income tax liabilities | | 479,350 | 661,816 |
| Warranty provision | | 1,998,398 | 1,123,585 |
| | | 92,180,705 | 61,940,158 |
| **Total liabilities** | | 101,971,531 | 73,977,821 |
| **Total equity and liabilities** | | 183,629,207 | 145,227,950 |

*The notes on pages 191 to 325 are an integral part of these consolidated financial statements.*

The consolidated financial statements on pages 183 to 325 were approved by the Board of Directors on March 31, 2020 and were signed on its behalf:

Lei Jun

Lin Bin

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

(Expressed in RMB)

| | | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 | Treasury shares RMB'000 | Share premium RMB'000 | Other reserves (Note 26) RMB'000 | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at January 1, 2019** | | 377 | – | 43,851,282 | 6,447,415 | 21,023,911 | 71,322,985 | (72,856) | 71,250,129 |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | | – | – | – | – | 10,044,164 | 10,044,164 | 58,786 | 10,102,950 |
| **Other comprehensive income** | | | | | | | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | | |
| Share of other comprehensive income of investments accounted for using the equity method | 11(b) | – | – | – | 9,279 | – | 9,279 | – | 9,279 |
| Currency translation differences | 26 | – | – | – | (89,113) | – | (89,113) | 11,683 | (77,430) |
| *Item that will not be reclassified subsequently to profit or loss* | | | | | | | | | |
| Currency translation differences | 26 | – | – | – | 508,584 | – | 508,584 | – | 508,584 |
| **Total comprehensive income** | | – | – | – | 428,750 | 10,044,164 | 10,472,914 | 70,469 | 10,543,383 |
| **Transactions with owners in their capacity as owners** | | | | | | | | | |
| Purchase of own shares | 25 | – | (2,932,111) | – | – | – | (2,932,111) | – | (2,932,111) |
| Cancellation of shares | 25 | 1 | 1,879,289 | (1,882,527) | – | – | (3,237) | – | (3,237) |
| Release of ordinary shares from Share Scheme Trusts | 25 | 1 | – | 167,447 | (139,015) | – | 28,433 | – | 28,433 |
| Share of other reserves of investments accounted for using the equity method | 11(b) | – | – | – | 229,740 | – | 229,740 | – | 229,740 |
| Employees share-based compensation scheme: | | | | | | | | | |
| – value of employee services | 28 | – | – | – | 2,127,878 | – | 2,127,878 | 89 | 2,127,967 |
| – exercise of share options and restricted stock units | 28 | 9 | – | 1,442,634 | (1,184,767) | – | 257,876 | – | 257,876 |
| Capital injection from non-controlling interests | | – | – | – | – | – | – | 155,496 | 155,496 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | 11(a) | – | – | – | (173,904) | – | (173,904) | 173,904 | – |
| Appropriation to statutory reserves | 26 | – | – | – | 295,047 | (295,047) | – | – | – |
| Appropriation to general reserves | 26 | – | – | – | 2 | (2) | – | – | – |
| **Total transactions with owners in their capacity as owners** | | 11 | (1,052,822) | (272,446) | 1,154,981 | (295,049) | (465,325) | 329,489 | (135,836) |
| **Balance at December 31, 2019** | | 388 | (1,052,822) | 43,578,836 | 8,031,146 | 30,773,026 | 81,330,574 | 327,102 | 81,657,676 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

(Expressed in RMB)

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Share capital RMB'000 | Share premium RMB'000 | Other reserves (Note 26) RMB'000 | Accumulated losses/retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at January 1, 2018** | | 150 | 742,760 | 947,420 | (128,962,691) | (127,272,361) | 61,670 | (127,210,691) |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | – | – | – | 13,553,886 | 13,553,886 | (76,139) | 13,477,747 |
| **Other comprehensive income** | | | | | | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | | |
| Share of other comprehensive income of investments accounted for using the equity method | 11(b) | – | – | 191,449 | – | 191,449 | – | 191,449 |
| Currency translation differences | 26 | – | – | (657,274) | – | (657,274) | 8,528 | (648,746) |
| *Item that will not be reclassified subsequently to profit or loss* | | | | | | | | |
| Currency translation differences | 26 | – | – | (1,098,818) | – | (1,098,818) | – | (1,098,818) |
| **Total comprehensive income** | | – | – | (1,564,643) | 13,553,886 | 11,989,243 | (67,611) | 11,921,632 |
| **Transactions with owners in their capacity as owners** | | | | | | | | |
| Issuance of ordinary shares | 25 | 11 | 9,827,146 | – | – | 9,827,157 | – | 9,827,157 |
| Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs | 25 | 27 | 23,248,593 | – | – | 23,248,620 | – | 23,248,620 |
| Release of ordinary shares from Share Scheme Trust | 25 | 15 | 933,592 | (841,640) | – | 91,967 | – | 91,967 |
| Conversion of convertible redeemable preferred shares to ordinary shares | 35 | 174 | 151,100,334 | – | – | 151,100,508 | – | 151,100,508 |
| Share of other reserves of investments accounted for using the equity method | 11(b) | – | – | 62,657 | – | 62,657 | – | 62,657 |
| Employees share-based compensation scheme: | | | | | | | | |
| – value of employee services | 28 | – | – | 2,358,720 | – | 2,358,720 | 102,805 | 2,461,525 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | | – | 230,899 | (152,071) | (162,046) | (83,218) | (171,220) | (254,438) |
| Appropriation to statutory reserves | 26 | – | – | 57,808 | (57,808) | – | – | – |
| Share premium set off the accumulated losses and other reserves | 25 | – | (142,232,042) | 5,579,472 | 136,652,570 | – | – | – |
| Others | | – | – | (308) | – | (308) | 1,500 | 1,192 |
| **Total transactions with owners in their capacity as owners** | | 227 | 43,108,522 | 7,064,638 | 136,432,716 | 186,606,103 | (66,915) | 186,539,188 |
| **Balance at December 31, 2018** | | 377 | 43,851,282 | 6,447,415 | 21,023,911 | 71,322,985 | (72,856) | 71,250,129 |

*The notes on pages 191 to 325 are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(Expressed in RMB)

| | Note | Year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 36(a) | 25,952,239 | 122,171 |
| Income tax paid | | (2,141,885) | (1,536,742) |
| Net cash generated from/(used in) operating activities | | 23,810,354 | (1,414,571) |
| **Cash flows from investing activities** | | | |
| Capital expenditures | | (3,405,163) | (3,785,259) |
| Proceeds from disposal of property and equipment | 36(b) | 67,735 | 27,367 |
| Placement of short-term bank deposits | | (25,728,849) | (2,060,799) |
| Withdrawal of short-term bank deposits | | 5,525,882 | 903,504 |
| Placement of long-term bank deposits | | (590,157) | — |
| Purchase of short-term investments measured at fair value through profit or loss | | (134,409,027) | (140,955,400) |
| Receipt from maturity of short-term investments measured at fair value through profit or loss | | 124,632,553 | 139,154,171 |
| Purchase of short-term investments measured at amortized cost | | — | (3,500,000) |
| Receipt from maturity of short-term investments measured at amortized cost | | — | 4,300,000 |
| Interest income received | | 864,226 | 489,816 |
| Investment income received | | 386,461 | 335,695 |
| Purchase of long-term investments measured at fair value through profit or loss | | (3,987,225) | (1,999,752) |
| Proceeds from disposal of long-term investments measured at fair value through profit or loss | | 4,846,175 | 304,999 |
| Purchase of investments accounted for using the equity method | | (200,000) | (793,595) |
| Proceeds from disposal of investments accounted for using the equity method | | 80,048 | — |
| Disposal of a subsidiary | | — | (25,655) |
| Acquisition of a subsidiary, net of cash acquired | | — | (34,936) |
| Dividends received | | 347,205 | 131,804 |
| Net cash used in investing activities | | (31,570,136) | (7,508,040) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2019

(Expressed in RMB)

| | Note | Year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 17,036,724 | 10,269,415 |
| Repayment of borrowings | | (10,417,425) | (10,505,637) |
| Finance expenses paid | | (218,994) | (243,966) |
| Placement of restricted cash | | — | (4,152,345) |
| Withdrawal of restricted cash | | 75,773 | 5,059,245 |
| Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary | | (187,000) | (165,000) |
| Proceeds from fund investors | | — | 2,781,000 |
| Net proceeds from issuance of ordinary shares relating to the initial public offering | | — | 23,248,620 |
| Net proceeds from exercise of share options | | 186,838 | — |
| Payments for shares repurchase | | (2,932,111) | — |
| Payment of lease liabilities | | (578,063) | — |
| Capital contribution from non-controlling interests | | 155,496 | — |
| Proceeds from release of ordinary shares from Share Scheme Trust | | — | 91,967 |
| Others | | — | 190,873 |
| 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 | 24(a) | 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** | 24(a) | 25,919,861 | 30,230,147 |

*The notes on pages 191 to 325 are an integral part of these consolidated financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the "**Company**"), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the "**Group**") are principally engaged in development and sales of smartphones, internet of things ("**IoT**") and lifestyle products, provision of internet services and investments holding in the People's Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain subsidiaries through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("**Xiaomi Communications**", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from the respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 1 General information (continued)

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 11(a).

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

### 2.1 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### (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, details of which are set out in Note 2.2.

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 on the Group's consolidated financial statements.

As indicated in Note 2.1, the Group has adopted IFRS 16 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. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019. The new accounting policies are disclosed in Note 2.33.

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.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- account for operating leases with a remaining lease term of less than 12 months as of January 1, 2019 in the same way as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.2 Changes in accounting policies (continued)

The reconciliation between the operating lease commitments disclosed as of December 31, 2018 and the lease liability recognized as of January 1, 2019 is as follows:

| | RMB'000 |
|---|---|
| Operating lease commitments disclosed as of December 31, 2018 | 1,029,240 |
| Discounted using the Group's incremental borrowing rate of 5.16% | 979,755 |
| Less: short-term leases recognized on a straight-line basis as expense | (258,968) |
| Add: adjustments as a result of a different treatment of extension and termination options and others | 138,046 |
| Lease liabilities recognized as of January 1, 2019 | 858,833 |

In addition, upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities in the consolidated statement of cash flows.

### 2.3 Subsidiaries

#### 2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

**(a) Subsidiaries controlled through Contractual Arrangements**

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.3 Subsidiaries (continued)

#### 2.3.1 Consolidation (continued)

**(b) Business combination**

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.3 Subsidiaries (continued)

#### 2.3.1 Consolidation (continued)

**(b) Business combination (continued)**

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

**(c) Changes in ownership interests in subsidiaries without change of control**

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**(d) Disposal of subsidiaries**

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("**OCI**") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.3 Subsidiaries (continued)

#### 2.3.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

### 2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

#### (a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.4 Associates (continued)

#### (a) Investments in associates in the form of ordinary shares (continued)

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other (losses)/gains, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

#### (b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.12).

### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollar ("**US$**"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.6 Foreign currency translation (continued)

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange gains and losses are presented in the consolidated income statement within "other (losses)/gains, net".

Translation differences on non-monetary financial assets and liabilities are recognized in profit or loss as part of the fair value changes.

#### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

#### (d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

## 2 Summary of significant accounting policies (continued)

### 2.6 Foreign currency translation (continued)

#### (d) Disposal of foreign operation and partial disposal (continued)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| — Leasehold improvements | Estimated useful lives or remaining lease terms, whichever is shorter |
| — Electronic equipment | 3 years |
| — Office equipment | 3–5 years |
| — Buildings | 40 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other (losses)/gains, net" in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.8 Land use rights

Land use rights represent prepayments for the land use rights in mainland China and are stated at cost initially and expensed on a straight-line basis over the periods of the leases.

### 2.9 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 40 years by using the straight-line method.

### 2.10 Intangible assets

#### (a) Goodwill

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

#### (b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

## 2 Summary of significant accounting policies (continued)

### 2.10 Intangible assets (continued)

**(c) Trademarks, patents and domain name**

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 16 years.

**(d) Other intangible assets**

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded in amortization within operating expenses in the consolidated income statement.

**(e) Research and development expenditures**

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.12 Financial assets

#### 2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 18 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### 2.12.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## 2 Summary of significant accounting policies (continued)

### 2.12 Financial assets (continued)

#### 2.12.2 Measurement (continued)

***Debt instruments***

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other (losses)/gains, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other (losses)/gains, net.

- Fair value through profit or loss ("**FVPL**"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement within other (losses)/gains, net in the period in which it arises.

***Equity instruments***

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.12 Financial assets (continued)

#### 2.12.3 Impairment

The Group has types of financial assets subject to IFRS 9's new expected credit loss model:

- loan receivables from fintech business;
- trade receivables for sales of goods or provision of services; and
- other receivables

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost including loan receivables, and with the exposure arising from financial guarantee contracts. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

#### 2.12.4 Derecognition

*Financial assets*

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("**pass through**" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.12 Financial assets (continued)

#### 2.12.4 Derecognition (continued)

*Financial assets (continued)*

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

*Asset-backed securities*

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liabilities is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

*Other financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.13 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

### 2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

### 2.15 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. They are generally due for settlement within one year and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.12.3 for a description of the Group's impairment policies for trade and other receivables.

## 2 Summary of significant accounting policies (continued)

### 2.16 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.12.3 for a description of the Group's impairment policy for loan receivables.

### 2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### 2.18 Share capital

Ordinary shares are classified as equity. Convertible redeemable preferred shares are classified as liabilities (see Note 2.20).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

### 2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.20 Convertible redeemable preferred shares

Convertible redeemable preferred shares ("**Preferred Shares**") issued by the Company are redeemable at the option of the holders at any time commencing on the redemption start date of December 23, 2019. This instrument can be converted into Class B ordinary shares of the Company at the option of a holder after July 3, 2015, or automatically converted into ordinary shares upon occurrence of (i) the closing of a Qualified Public Offering ("**QPO**"), or (ii) with written consent of holders of more than fifty percent (50%) of the issued and outstanding Series A Preferred Shares, or written consent of holders of more than two thirds (2/3) of the issued and outstanding Preferred Shares (other than Series A Preferred Shares).

The Group designated the Preferred Shares as financial liabilities at fair value through profit or loss. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated income statement.

Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the consolidated income statement.

The Preferred Shares are classified as non-current liabilities if the Preferred Shares holders cannot demand the Company to redeem the Preferred Shares for at least 12 months after the end of the reporting period.

### 2.21 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 2 Summary of significant accounting policies (continued)

### 2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

### 2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

### 2.24 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.24 Current and deferred income tax (continued)

**(b) Deferred income tax**

***Inside basis differences***

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

***Outside basis differences***

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

**(c) Offsetting**

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.25 Employee benefits

**(a) Pension obligations**

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee — administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

**(b) Employee leave entitlements**

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

**(c) Bonus plans**

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

### 2.26 Share-based payment

**(a) Equity-settled share-based payment transactions**

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("**RSUs**") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.26 Share-based payment (continued)

**(a) Equity-settled share-based payment transactions (continued)**

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

**(b) Cash-settled share-based payment transactions**

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

## 2 Summary of significant accounting policies (continued)

### 2.27 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**(a) Warranty provision**

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

### 2.28 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group's activities, as described below.

**(a) Sales of products**

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.28 Revenue recognition (continued)

**(a) Sales of products (continued)**

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

**(b) Internet services**

Internet services mainly comprise advertising services and internet value-added services.

***(i) Advertising services***

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third parties' apps are downloaded by users.

***(ii) Internet value-added services***

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. For online game, the Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loans services through its own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.28 Revenue recognition (continued)

#### (b) Internet services (continued)

##### *(ii) Internet value-added services (continued)*

Fintech business (continued)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group acts as an agent to facilitate such loans. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.29 Interest income

Interest income from financial assets at FVPL is included in investment income as part of other income.

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.30 Earnings per share

**(a) Basic earnings per share**

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

**(b) Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.31 Dividend income

Dividends are received from financial assets measured at FVPL and at FVOCI. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

### 2.32 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

### 2.33 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in Note 2.2.

Until December 31, 2018, leases of plant and equipment and office where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the repayment of lease liability and finance cost. The finance cost was charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.33 Leases (continued)

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 Summary of significant accounting policies (continued)

### 2.33 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group has chosen not to revalue its right-of-use assets.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term (Note 17). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

#### (a) Market risk

##### *(i) Foreign exchange risk*

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/ weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB28,060,000 lower/higher (2018: RMB148,939,000 higher/lower), as a result of net foreign exchange losses (2018: net foreign exchange gains) on translation of net monetary assets (2018: net monetary liabilities) denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB326,278,000 (2018: RMB213,622,000) lower/higher, as a result of net foreign exchange losses on translation of net monetary liabilities denominated in RMB.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### *(ii) Interest rate risk*

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 33), loan receivables, long-term bank deposits, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB29,537,000 (2018: RMB17,158,000) lower/higher. This analysis does not include the effect of interest capitalized.

If the interest rate of short-term bank deposits had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been RMB107,615,000 (2018: RMB6,830,000) higher/lower.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2019 would have been RMB129,599,000 (2018: RMB151,151,000) higher/lower.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

##### *(iii) Price risk*

The Group is exposed to price risk in respect of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments, loan receivables, trade receivables, other receivables, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to these financial institutions.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding other receivable balances due from them is not significant.

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is RMB8,142,058,000 as of December 31, 2019 (2018: RMB4,391,098,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

# 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

### (b) Credit risk (continued)

To manage risk arising from loan receivables, the Group performs standardized credit management procedures. For pre-approval investigation, the Group uses its platform and systems using big data technology to optimize the review process, including credit analysis, assessment of collectability of borrowers, possibility of misconduct and fraudulent activities. In terms of credit examining management, the Group has established specific policies and procedures to assess loans offering. For subsequent monitoring, the Group has implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, the Group has established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("**ECL**") under IFRS 9.

***(b1) Expected credit loss model for loan receivables, as summarized below:***

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

***(b1) Expected credit loss model for loan receivables, as summarized below (continued):***

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

***(b1) Expected credit loss model for loan receivables, as summarized below (continued):***

(3) Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month ("**12M**") or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

***(b1) Expected credit loss model for loan receivables, as summarized below (continued):***

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

***(b2) Credit loss allowance***

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "**step down**") between 12-month and Lifetime ECL;

- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;

- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

(b) Credit risk (continued)

*(b2) Credit loss allowance (continued)*

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

| | Stage 1<br>RMB'000 | Stage 2<br>RMB'000 | Stage 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Loss allowance as of January 1, 2019 | 101,621 | 89,271 | 510,973 | 701,865 |
| *Transfers:* | | | | |
| Transfer from Stage 1 to Stage 2 | (208) | 13,785 | — | 13,577 |
| Transfer from Stage 1 to Stage 3 | (2,114) | — | 175,902 | 173,788 |
| Transfer from Stage 2 to Stage 3 | — | (68,890) | 146,511 | 77,621 |
| Change in PDs/LGDs/EADs | 17 | 11 | 35,593 | 35,621 |
| Loan receivables derecognized during the year | (98,076) | (21,373) | (183,746) | (303,195) |
| New loan receivables originated | 196,849 | 387,281 | 642,015 | 1,226,145 |
| Write-offs | — | — | (255,685) | (255,685) |
| Loss allowance as of December 31, 2019 | 198,089 | 400,085 | 1,071,563 | 1,669,737 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

*(b2) Credit loss allowance (continued)*

| | Stage 1<br>RMB'000 | Stage 2<br>RMB'000 | Stage 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Loss allowance as of January 1, 2018** | 122,584 | 50,757 | 100,327 | 273,668 |
| *Transfers:* | | | | |
| Transfer from Stage 1 to Stage 2 | (74) | 2,630 | — | 2,556 |
| Transfer from Stage 1 to Stage 3 | (2,502) | — | 168,584 | 166,082 |
| Transfer from Stage 2 to Stage 1 | — | (13) | — | (13) |
| Transfer from Stage 2 to Stage 3 | — | (38,453) | 84,121 | 45,668 |
| Transfer from Stage 3 to Stage 1 | — | — | (9) | (9) |
| Transfer from Stage 3 to Stage 2 | — | 1 | (2) | (1) |
| Change in PDs/LGDs/EADs | (17) | 4 | 2,711 | 2,698 |
| Loan receivables derecognized during the year | (108,910) | (15,333) | (25,239) | (149,482) |
| New loan receivables originated | 90,540 | 89,678 | 316,746 | 496,964 |
| Write-offs | — | — | (136,266) | (136,266) |
| **Loss allowance as of December 31, 2018** | 101,621 | 89,271 | 510,973 | 701,865 |

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

The high volume of new loan receivables originated during the year ended December 31, 2019, aligned with the Group's organic growth objective, increased the gross carrying amount of the loan receivables by 126% (2018: 128%) with a corresponding RMB196,849,000 (2018: RMB90,540,000) increase in loss allowance measured on a 12-month basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

**(b) Credit risk (continued)**

***(b2) Credit loss allowance (continued)***

The gross carrying amount of the loan receivables explains their significance to the changes in the loss allowance as discussed above:

| | Stage 1 RMB'000 | Stage 2 RMB'000 | Stage 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Gross carrying amount as of January 1, 2019** | 10,227,478 | 207,640 | 560,392 | 10,995,510 |
| *Transfers:* | | | | |
| Transfer from Stage 1 to Stage 2 | (18,538) | 18,538 | — | — |
| Transfer from Stage 1 to Stage 3 | (188,121) | — | 188,121 | — |
| Transfer from Stage 2 to Stage 3 | — | (154,171) | 154,171 | — |
| Loan receivables derecognized during the year other than write-offs | (10,000,977) | (53,444) | (199,724) | (10,254,145) |
| New loan receivables originated | 12,713,842 | 514,412 | 679,306 | 13,907,560 |
| Write-offs | — | — | (255,685) | (255,685) |
| **Gross carrying amount as of December 31, 2019** | 12,733,684 | 532,975 | 1,126,581 | 14,393,240 |
| **Gross carrying amount as of January 1, 2018** | 8,172,340 | 133,327 | 112,494 | 8,418,161 |
| *Transfers:* | | | | |
| Transfer from Stage 1 to Stage 2 | (5,381) | 5,381 | — | — |
| Transfer from Stage 1 to Stage 3 | (183,244) | — | 183,244 | — |
| Transfer from Stage 2 to Stage 1 | 25 | (25) | — | — |
| Transfer from Stage 2 to Stage 3 | — | (91,436) | 91,436 | — |
| Transfer from Stage 3 to Stage 1 | 10 | — | (10) | — |
| Transfer from Stage 3 to Stage 2 | — | 3 | (3) | — |
| Loan receivables derecognized during the year other than write-offs | (7,976,884) | (41,810) | (28,232) | (8,046,926) |
| New loan receivables originated | 10,220,612 | 202,200 | 353,886 | 10,776,698 |
| Write-offs | — | — | (152,423) | (152,423) |
| **Gross carrying amount as of December 31, 2018** | 10,227,478 | 207,640 | 560,392 | 10,995,510 |

There is no originated credit-impaired loan receivables of the Group during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

*(b3) Write-off policy*

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write-off loan receivables that are still subject to enforcement activity. The outstanding contractual amounts of loan receivables written off during the year ended December 31, 2019 was RMB255,685,000(2018: RMB152,423,000). The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

*(b4) Modification*

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

#### (c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2019, there is no non-compliance with such loan covenants (2018: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (c) Liquidity risk (continued)

| | Less than 1 year RMB'000 | Between 1 year and 2 years RMB'000 | Between 2 years and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Group | | | | | |
| At December 31, 2019 | | | | | |
| Borrowings | 12,836,555 | 3,176,000 | 1,074,448 | 536,408 | 17,623,411 |
| Trade payables | 59,527,940 | — | — | — | 59,527,940 |
| Other payables | 6,175,923 | 166,065 | 355,915 | 392,040 | 7,089,943 |
| Lease liabilities | 414,687 | 204,959 | 275,879 | 108,590 | 1,004,115 |
| Investment from fund investors | — | — | — | 3,074,210 | 3,074,210 |
| Off-balance sheet guarantee liabilities | 7,893,941 | — | — | — | 7,893,941 |
| At December 31, 2018 | | | | | |
| Borrowings | 3,075,194 | 6,145,202 | 450,308 | 1,260,633 | 10,931,337 |
| Trade payables | 46,287,271 | — | — | — | 46,287,271 |
| Other payables | 5,312,834 | 206,488 | 201,689 | 217,965 | 5,938,976 |
| Investment from fund investors | — | — | — | 2,823,504 | 2,823,504 |
| Off-balance sheet guarantee liabilities | 4,325,961 | — | — | — | 4,325,961 |

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital, share premium and Preferred Shares on an as-if-converted basis) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has operating profits and a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Long-term investments measured at fair value through profit or loss (Note 19) | 3,651,090 | — | 17,028,273 | 20,679,363 |
| Short-term investments measured at fair value through profit or loss (Note 19) | — | — | 16,463,390 | 16,463,390 |
| | 3,651,090 | — | 33,491,663 | 37,142,753 |

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2018:

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Long-term investments measured at fair value through profit or loss (Note 19) | 5,215,898 | — | 13,420,310 | 18,636,208 |
| Short-term investments measured at fair value through profit or loss (Note 19) | — | — | 6,648,526 | 6,648,526 |
| | 5,215,898 | — | 20,068,836 | 25,284,734 |

(a) **Financial instruments in level 1**

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

(b) **Financial instruments in level 2**

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

#### (c) Financial instruments in level 3

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;

- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and

- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc.

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

The changes in level 3 instruments of Preferred Shares for the year ended December 31, 2018 are presented in the Note 35.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

#### (c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2019 and 2018:

| | Year ended December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| At the beginning of the year | 13,420,310 | 13,092,429 |
| Addition | 3,486,670 | 1,727,614 |
| Disposal | (396,683) | (146,908) |
| Changes in fair value | 2,287,879 | 6,566,513 |
| Transfer to long-term investments accounted for using the equity method | (958,701) | (6,523,539) |
| Transfer to level 1 financial instruments | (967,179) | (1,467,599) |
| Exchange gains | 155,977 | 171,800 |
| At the end of the year | 17,028,273 | 13,420,310 |
| Net unrealized gains for the year | 1,772,043 | 4,047,551 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

**(c) Financial instruments in level 3 (continued)**

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2019 and 2018:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| At the beginning of the year | 6,648,526 | 4,488,076 |
| Addition | 134,409,027 | 140,955,400 |
| Disposal | (125,019,014) | (139,154,171) |
| Changes in fair value | 424,851 | 359,221 |
| At the end of the year | 16,463,390 | 6,648,526 |
| Net unrealized gains for the year | 38,390 | 23,526 |

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

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 19), and short-term investments measured at fair value through profit or loss (Note 19). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including market approach etc.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

#### (c) Financial instruments in level 3 (continued)

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

| Description | Fair values | | Significant unobservable inputs | Range of inputs | | Relationship of unobservable inputs to fair values |
|---|---|---|---|---|---|---|
| | As of December 31, | | | As of December 31, | | |
| | 2019 | 2018 | | 2019 | 2018 | |
| | RMB'000 | RMB'000 | | | | |
| Long-term investments measured at fair value through profit or loss | 17,028,273 | 13,420,310 | Expected volatility | 26%–59% | 32%–62% | The higher the expected volatility, the lower the fair value |
| | | | Discount for lack of marketability ("DLOM") | 5%–25% | 5%–25% | The higher the DLOM, the lower the fair value |
| | | | Risk-free rate | 2%–3% | 2%–4% | The higher the risk-free rate, the higher the fair value |
| Short-term investments measured at fair value through profit or loss | 16,463,390 | 6,648,526 | Expected rate of return | 2%–5% | 2%–5% | The higher the expected rate of return, the higher the fair value |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the year ended December 31, 2019 would have been approximately RMB3,714,275,000 (2018: RMB2,528,473,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2019, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering of the investee companies.

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

## 4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

## 4 Critical accounting estimates and judgments (continued)

### (b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

### (c) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

### (d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

### (e) Recoverability of non-financial assets and investments accounted for using the equity method

The recoverable amount of non-financial assets and investments accounted for using the equity method is the greater of its fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue and amount of operating costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 Critical accounting estimates and judgments (continued)

### (e) Recoverability of non-financial assets and investments accounted for using the equity method (continued)

The Group uses all readily available information in determining an amount that is a reasonable estimation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in further impairment charge or reversal of impairment in future periods.

### (f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

### (g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

## 5 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

## 5 Segment information (continued)

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

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

There were no material inter-segment sales during the years ended December 31, 2019 and 2018. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 5 Segment information (continued)

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 | | | | |
|---|---|---|---|---|---|
| | Smartphones RMB'000 | IoT and lifestyle products RMB'000 | Internet services RMB'000 | Others RMB'000 | Total 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 5 Segment information (continued)

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 |
| | 205,838,682 | | 174,915,425 | |

Note:

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

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2019 and 2018 are listed as below:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | % | % |
| Customer A | 12.1 | 10.9 |

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 6 Revenue

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Smartphones | 122,094,897 | 113,800,386 |
| IoT and lifestyle products | 62,087,998 | 43,816,885 |
| Internet services | 19,841,569 | 15,955,558 |
| Others | 1,814,218 | 1,342,596 |
| | 205,838,682 | 174,915,425 |

## 7 Other income

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Government grants | 400,405 | 274,584 |
| Value-added tax and other tax refunds | 55,282 | 82,507 |
| Dividend income | 347,205 | 131,804 |
| Investment income from short-term investments measured at fair value through profit or loss | 386,461 | 335,695 |
| Investment income from short-term investments measured at amortized cost | — | 20,199 |
| Others | 76,568 | — |
| | 1,265,921 | 844,789 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 8 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 (Note 23) | 3,859,675 | 3,006,525 |
| Royalty fees | 5,042,116 | 4,263,421 |
| Employee benefit expenses (Note 9) | 8,304,928 | 17,114,892 |
| Depreciation of property and equipment, right-of-use assets and investment properties (Note 14, 16, 17) | 895,273 | 219,523 |
| Amortization of intangible assets (Note 15) | 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 |

During the year, the Group incurred expenses for the purpose of research and development of approximately RMB7,492,554,000 (2018: RMB5,776,826,000), which comprised employee benefits expenses of RMB4,526,246,000 (2018: RMB4,043,476,000). No significant development expenses had been capitalized during the year (2018: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 9 Employee benefit expenses

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Wages, salaries and bonuses | 4,699,234 | 3,565,209 |
| Share-based compensation expenses (Note (a) and Note 28) | 2,201,722 | 12,380,668 |
| Contributions to pension plans | 551,073 | 481,686 |
| Other social security costs, housing benefits and other employee benefits | 852,899 | 687,329 |
| | 8,304,928 | 17,114,892 |

Note:

(a) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Xiaomi Development Fund ("**Employee Fund**").

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include one director (Chew Shou Zi) during the year ended December 31, 2019 (2018: Lei Jun). All of these individuals including that one director have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2019 and 2018. The emoluments payable to the five highest paid individuals during the years ended December 31, 2019 and 2018 are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Wages, salaries and bonuses | 6,762 | 9,398 |
| Share-based compensation expenses | 262,073 | 10,208,783 |
| Contributions to pension plans | 154 | 71 |
| Other social security costs, housing benefits and other employee benefits | 229 | 70 |
| | 269,218 | 10,218,322 |

# 9 Employee benefit expenses (continued)

## (a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

| | Number of individuals Year ended December 31, 2019 | 2018 |
|---|---|---|
| Hong Kong dollar ("**HK$**") 10,000,001 to HK$30,000,000 | — | — |
| HK$30,000,001 to HK$100,000,000 | 5 | 4 |
| HK$100,000,001 to HK$150,000,000 | — | — |
| HK$150,000,001 to HK$15,000,000,000 | — | 1 |

## (b) Benefits and interests of directors

| Name of Director | Fees HK$'000 | Salary HK$'000 | Discretionary bonuses HK$'000 | Allowances and benefits in kind HK$'000 | Employer's contribution to a retirement benefit scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| LEI, Jun | — | — | — | — | — | — |
| LIN, Bin | — | — | — | — | — | — |
| CHEW, Shou Zi (i) | — | — | — | — | — | — |
| **Non-executive Directors** | | | | | | |
| KOH, Tuck Lye (ii) | — | — | — | — | — | — |
| LIU, Qin | — | — | — | — | — | — |
| **Independent non-executive Directors** | | | | | | |
| CHEN, Dongsheng | 500 | — | — | — | — | 500 |
| LEE, Ka Kit (iii) | 311 | — | — | — | — | 311 |
| WONG, Shun Tak (v) | 823 | — | — | — | — | 823 |
| TONG, Wai Cheung Timothy (iv) (vi) | 511 | — | — | — | — | 511 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 9 Employee benefit expenses (continued)

### (b) Benefits and interests of directors (continued)

Notes:

(i) Mr. Chew Shou Zi was appointed as an executive director of the Company with effect from October 25, 2019.

(ii) Mr. Koh Tuck Lye has resigned as a non- executive director of the Company with effect from October 25, 2019.

(iii) Dr. Lee Ka Kit has resigned as an independent non-executive director of the Company with effect from August 23, 2019.

(iv) Prof. Tong Wai Cheung Timothy was appointed as an independent non-executive director of the Company with effect from August 23, 2019.

(v) HK$323,000 was paid to Mr. Wong Shun Tak during the year ended December 31, 2019 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(vi) HK$323,000 was paid to Prof. Tong Wai Cheung Timothy during the year ended December 31, 2019 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

During the year ended December 31, 2019, no share based awards were granted to directors. Certain share based awards were granted to Lei Jun during the year ended December 31, 2018 (Note 28).

### (c) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

### (d) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

### (e) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

## 9 Employee benefit expenses (continued)

### (f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2019 and 2018 or at any time during all the years presented.

## 10 Finance income, net

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **Finance income:** | | |
| Interest income from bank deposits | 930,889 | 601,065 |

Interest income mainly represents interest income from bank deposits, including bank balance and term deposits.

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **Finance costs:** | | |
| Interest expense from liabilities to fund investors (Note 29) | 250,706 | 42,504 |
| Interest expense from borrowings (Note 33) and lease liabilities (Note 16) | 407,141 | 415,465 |
| Less: amount capitalized | (129,387) | (73,277) |
| | 528,460 | 384,692 |

Finance costs have been capitalized on qualifying assets at average interest rates of 5.78% per annum for the year ended December 31, 2019 (2018: 5.35%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities):

| | | | | Effective interest held | | | |
|---|---|---|---|---|---|---|---|
| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | As of December 31, 2019 | 2018 | As of the date of this report | Principal activities |
| **Subsidiaries** | | | | | | | |
| **Directly held:** | | | | | | | |
| Xiaomi H.K. Limited | Hong Kong, limited liability company | April 7, 2010 | HK$10,000 | 100% | 100% | 100% | Wholesale and retail of smartphones and ecosystem partners' products |
| Fast Pace Limited | British Virgin Islands, limited liability company | January 8, 2013 | US$2 | 100% | 100% | 100% | Investment holding and investment activities |
| Xiaomi Ventures Limited | British Virgin Islands, limited liability company | March 21, 2013 | US$1 | 100% | 100% | 100% | Investment holding and investment activities |
| Xiaomi Singapore Pte. Ltd. | Singapore, limited liability company | December 23, 2013 | Singapore Dollar ("**SGD**")1 and US$149,000,000 | 100% | 100% | 100% | Sales of smart hardware |
| Xiaomi Finance Inc. | Cayman Islands, limited liability company | February 15, 2018 | US$1 | 100% | 100% | 100% | Investment holding and investment activities |
| Xiaomi Best Time International Ltd. | Hong Kong, limited liability company | December 20, 2018 | US$500,000,000 | 100% | 100% | 100% | Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | Effective interest held | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | | As of December 31, | | As of the date of this report | |
| | | | | 2019 | 2018 | | |
| **Subsidiaries** | | | | | | | |
| **Indirectly held:** | | | | | | | |
| Xiaomi Communications Co., Ltd. | Mainland China, limited liability company | August 25, 2010 | US$130,000,000 | 100% | 100% | 100% | Sales of smartphones, sales of ecosystem partners' products and provision of customer services |
| Beijing Xiaomi Electronics Co., Ltd. | Mainland China, limited liability company | January 9, 2012 | US$27,000,000 | 100% | 100% | 100% | Sales of smart hardware |
| Taiwan Xiaomi Communications Co., Ltd. | Taiwan, limited liability company | April 25, 2000 | New Taiwan Dollar("**NTD**") 5,000,000 | 100% | 100% | 100% | Sales of smart hardware |
| Chongqing Xiaomi Microcredit Co., Ltd. | Mainland China, limited liability company | June 12, 2015 | US$450,000,000 | 100% | 100% | 100% | Internet finance and consumer loan services |
| Beijing Xiaomi Mobile Software Co., Ltd. | Mainland China, limited liability company | May 8, 2012 | RMB288,000,000 | 100% | 100% | 100% | Software and hardware development and provision of software related services |
| Zhuhai Xiaomi Communications Co., Ltd. | Mainland China, limited liability company | January 25, 2013 | RMB2,000,000 | 100% | 100% | 100% | Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | Effective interest held: As of December 31, 2019 | Effective interest held: As of December 31, 2018 | Effective interest held: As of the date of this report | Principal activities |
|---|---|---|---|---|---|---|---|
| **Subsidiaries Indirectly held (continued):** | | | | | | | |
| Guangdong Xiaomi Inc. | Mainland China, limited liability company | September 21, 2015 | RMB1,000,000,000 | 100% | 100% | 100% | Provision of software and technology service |
| Guangzhou Xiaomi Communications Co., Ltd. | Mainland China, limited liability company | September 22, 2016 | RMB951,000,000 | 100% | 100% | 100% | Sales of smart hardware |
| Timi Personal Computing Co., Ltd. | Mainland China, limited liability company | July 28, 2015 | RMB2,000,000 | 100% | 100% | 100% | Sales of smart hardware |
| Xiaomi Technology India Private Limited | India, limited liability company | October 7, 2014 | Indian Rupees ("**INR**")207,450 | 100% | 100% | 100% | Sales of smartphones and ecosystem partners' products |
| Guangzhou Xiaomi Information Service Co., Ltd. | Mainland China, limited liability company | December 29, 2016 | RMB1,000,000 | 100% | 100% | 100% | Provision of advertising and promotion services |
| Xiaomi Home Commercial Co., Ltd. | Mainland China, limited liability company | June 27, 2017 | RMB100,000,000 | 100% | 100% | 100% | Operation of retail stores |
| Red Better Limited | British Virgin Islands, limited liability company | October 8, 2013 | – | 100% | 100% | 100% | Investment activities |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | Effective interest held: As of December 31, 2019 | Effective interest held: As of December 31, 2018 | Effective interest held: As of the date of this report | Principal activities |
|---|---|---|---|---|---|---|---|
| **Subsidiaries Indirectly held (continued):** | | | | | | | |
| Green Better Limited | British Virgin Islands, limited liability company | December 9, 2013 | US$1 | **100%** | 100% | 100% | Investment activities |
| People Better Limited | British Virgin Islands, limited liability company | April 22, 2014 | US$1,000,001 | **100%** | 100% | 100% | Investment activities |
| Xiaomi Home Technology Co., Ltd. | Mainland China, limited liability company | January 20, 2017 | RMB80,000,000 | **100%** | 100% | 100% | Operation of retail stores |
| Beijing Zilin Real Estate Co., Ltd. | Mainland China, limited liability company | November 29, 2018 | RMB1,000,000,000 | **95%** | 95% | 95% | Property management |
| Xiaomi Commercial Factoring (Tianjin) Co., Ltd. | Mainland China, limited liability company | March 21, 2018 | US$380,000,000 | **100%** | 100% | 100% | Commercial factoring business |
| Beijing Xiaomi Software Co., Ltd. | Mainland China, limited liability company | December 19, 2011 | RMB18,859,500 | **100%** | 100% | 100% | Research and development of computer software and information technology |
| PT. Xiaomi Technology Indonesia | Indonesia, limited liability company | April 23, 2018 | Indonesian Rupiah ("**IDR**") 13,000,000,000 | **100%** | 100% | 100% | Sales of smartphones and ecosystem partners' products |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

| | | | | Effective interest held | | | |
|---|---|---|---|---|---|---|---|
| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | As of December 31, 2019 | As of December 31, 2018 | As of the date of this report | Principal activities |
| **Subsidiaries Indirectly held (continued):** | | | | | | | |
| Xiaomi Technology (Wuhan) Co., Ltd. | Mainland China, limited liability company | September 1, 2017 | RMB210,000,000 | 100% | 100% | 100% | Software development |
| Airstar Bank Limited | Hong Kong, limited liability company | July 13, 2018 | HK$1,500,000,000 | 90% | 90% | 90% | Virtual banking |
| Xiaomi Information Technology Wuhan Ltd. | Mainland China, limited liability company | August 3, 2018 | RMB123,770,000 | 100% | 100% | 100% | Information technology advisory services |
| Beijing Pinecone Electronics Co., Ltd. (Note (b)) | Mainland China, limited liability company | October 16, 2014 | RMB250,000,000 | 100% | 72% | 100% | Development and sales of electronic products |
| Chengdu Beida Asset Management Co., Ltd. | Mainland China, limited liability company | August 17, 2017 | RMB20,000,000 | 100% | 100% | 100% | Asset management, project investment, investment consulting |
| Beijing Xiaomi Intelligent Technology Co., Ltd. | Mainland China, limited liability company | May 15, 2018 | RMB40,000,000 | 100% | 100% | 100% | Technology development, technology diffusion, technology transfer, technology consulting |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

| | | | | Effective interest held | | | |
|---|---|---|---|---|---|---|---|
| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | As of December 31, 2019 | 2018 | As of the date of this report | Principal activities |
| **Controlled structured entities (Note (a)):** | | | | | | | |
| Xiaomi Inc. | Mainland China, limited liability company | March 3, 2010 | RMB1,850,000,000 | 100% | 100% | 100% | E-commerce business |
| Tianjin Jinxing Venture Investment Co., Ltd. | Mainland China, limited liability company | December 26, 2013 | RMB2,476,557,552 | 100% | 100% | 100% | Investment activities |
| Sichuan Silver Mi Technology Co., Ltd. | Mainland China, limited liability company | October 26, 2005 | RMB2,000,000,000 | 100% | 100% | 100% | Research and development of computer software and market research |
| Jiefu Ruitong Inc. | Mainland China, limited liability company | January 11, 2011 | RMB100,000,000 | 100% | 100% | 100% | Provision of electronic payment services |
| Beijing Duokan Technology Co., Ltd. | Mainland China, limited liability company | February 10, 2010 | RMB10,000,000 | 100% | 100% | 100% | Sales of e-book |
| Beijing Wali Internet Technologies Co., Ltd. | Mainland China, limited liability company | June 1, 2009 | RMB2,100,000 | 100% | 100% | 100% | Provision of internet services |
| Tianjin Gold Mi Investment Partners (Limited Partnership) | Mainland China, limited partnership | July 16, 2014 | RMB2,408,957,772 | 100% | 100% | 100% | Investment activities |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2019 and 2018, the Company had the following major subsidiaries (including controlled structured entities) (continued):

| Name | Place of incorporation/ establishment and kind of legal entity | Date of incorporation/ establishment | Particulars of issued/ paid-in capital | Effective interest held | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | | As of December 31, 2019 | As of December 31, 2018 | As of the date of this report | |
| **Controlled structured entities (Note (a)):** | | | | | | | |
| Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) | Mainland China, limited partnership | December 7, 2017 | RMB3,384,000,000 | 18% | 18% | 18% | Investment activities |
| Youpin Information Technology Co., Ltd. | Mainland China, limited liability company | April 4, 2018 | RMB50,000,000 | 100% | 100% | 100% | E-commerce business |

Notes:

(a) The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) In 2019, the Group entered into a share repurchase agreement with minority shareholders of Pinecone Cayman Limited ("**Pinecone Cayman**") to obtain certain indirect equity interest in it, as a result, the Group's shareholding interest in Beijing Pinecone Electronics Co., Ltd. which was indirectly owned by Pinecone Cayman changed from 72% to 100%.

(c) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(d) The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(b) Investments accounted for using the equity method

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | 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 |
| | 9,300,507 | 8,639,238 |

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **At the beginning of the year** | 8,639,238 | 1,710,819 |
| Additions (Note (a),(b)) | 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) | — |
| **At the end of the year** | 9,300,507 | 8,639,238 |

Notes:

(a) In April 2019, Ninebot Limited ("**Ninebot**"), an investment engaging in the operation of developing and selling IoT-enabled smart mobility products mainly in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, was accepted by the Shanghai Stock Exchange for its listing application on the Sci-Tech Innovation Board (STAR Market). The conversion of the preference shares in Ninebot owned by the Group into ordinary shares was completed on April 17, 2019, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.

(b) In June 2019, Shanghai Sunmi Technology Co., Ltd. ("**Sunmi**"), an investment engaging in the provision of a full range of intelligent hardware solutions based on Android's operating system for commercial applications in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, underwent the overall change from a limited liability company to a joint stock company. The conversion of the preference shares in Sunmi owned by the Group into ordinary shares was completed on June 28, 2019, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(b) Investments accounted for using the equity method (continued)

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

Set out below are the material associates of the Group as of December 31, 2019 and 2018. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

| Name of entity | Place of incorporation | % of Ownership interest | Principal activities | Quoted fair value As of December 31, 2019 RMB'000 | Quoted fair value As of December 31, 2018 RMB'000 | Carrying amount As of December 31, 2019 RMB'000 | Carrying amount As of December 31, 2018 RMB'000 |
|---|---|---|---|---|---|---|---|
| Sichuan Xin Wang Bank Co., Ltd. ("**XW Bank**") | Mainland China | 29.5 | Provision of internet banking service | **NA** | NA | **1,269,913** | 936,908 |
| iQIYI, Inc. ("**iQIYI**") | Cayman Islands | 6.7 | Provision of internet video streaming services | **7,192,441** | 4,984,330 | **3,769,444** | 4,377,472 |

The associates of the Group have been accounted by using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(b) Investments accounted for using the equity method (continued)

Set out below are the summarized financial information of material associates.

| | XW Bank | | iQIYI | |
|---|---|---|---|---|
| | As of December 31, | | As of December 31, | |
| | 2019 | 2018 | 2019 | 2018 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Summarized consolidated balance sheets** | | | | |
| Current assets | 10,427,012 | 28,137,561 | 20,272,838 | 19,853,443 |
| Non-current assets | 33,726,206 | 8,021,166 | 34,721,946 | 35,736,050 |
| Current liabilities | 21,007,556 | 28,454,306 | 20,173,166 | 19,812,356 |
| Non-current liabilities | 18,840,873 | 4,528,463 | 17,455,010 | 9,499,228 |
| Redeemable non-controlling interests | — | — | 101,542 | — |
| Non-controlling interests | — | — | 42,376 | 118,632 |
| Equity attributable to owners of the Company | 4,304,789 | 3,175,958 | 17,222,690 | 26,159,277 |
| **Reconciliation to carrying amounts:** | | | | |
| Group's share of net assets attributable to owners of the associates | 1,269,913 | 936,908 | 1,160,011 | 1,768,039 |
| Adjustment | | | | |
| — Goodwill | — | — | 2,609,433 | 2,609,433 |
| Carrying amount | 1,269,913 | 936,908 | 3,769,444 | 4,377,472 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 11(b) Investments accounted for using the equity method (continued)

| | XW Bank | | iQIYI | |
|---|---|---|---|---|
| | Year ended December 31, | | Year ended December 31, | |
| | 2019 | 2018 | 2019 | 2018 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Summarized consolidated income statements and consolidated statements of comprehensive income** | | | | |
| Revenues | 2,680,662 | 1,160,403 | 28,993,658 | 24,989,116 |
| Profit/(loss) from operations | 1,302,822 | 461,099 | (9,728,508) | (8,420,635) |
| Profit/(loss) before tax | 1,302,121 | 460,343 | (10,695,558) | (9,096,829) |
| Net profit/(loss) | 1,133,181 | 371,470 | (10,747,410) | (9,175,630) |
| Other comprehensive (loss)/income | — | (711) | 226,772 | 1,786,820 |
| Total comprehensive income/(loss) | 1,133,181 | 370,759 | (10,520,638) | (7,388,810) |

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Aggregate carrying amount of individually immaterial associates | 4,261,150 | 3,324,858 |
| Aggregate amounts of the Group's share of: | | |
| Net loss | (271,592) | (108,184) |
| Other comprehensive (loss)/income | (5,996) | 45,587 |
| Total comprehensive loss | (277,588) | (62,597) |

There are no contingent liabilities relating to the Group's interests in the associates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 12 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 (Note 34) | **(168,913)** | (965,225) |
| **Income tax expenses** | **2,059,696** | 449,377 |

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

| | Year ended December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Profit before income tax | **12,162,646** | 13,927,124 |
| Tax calculated at statutory income tax rate of 25% in mainland China (Note (a)) | **3,040,662** | 3,481,781 |
| Tax effects of: | | |
| — Effect of different tax rates in other jurisdictions (Note (b),(c),(d)) | **(617,082)** | (2,037,227) |
| — Preferential income tax rates applicable to subsidiaries (Note (e)) | **(1,055,387)** | (1,017,178) |
| — Tax losses and temporary differences for which no deferred income tax assets was recognized | **347,222** | 115,452 |
| — Expenses not deductible for income tax purposes | **721,596** | 588,839 |
| — Utilization of previously unrecognized deductible tax losses and temporary differences | **(25,515)** | (89,626) |
| — Recognition of previously unrecognized deductible tax losses and temporary differences | **(285,756)** | — |
| — Super Deduction for research and development expenses (Note (f)) | **(301,835)** | (166,794) |
| — Income not subject to tax | **(117,241)** | (157,306) |
| — Tax refund (Note (e)) | **—** | (270,757) |
| — Reversal of deferred income tax assets | **350,959** | — |
| — Others | **2,073** | 2,193 |
| **Income tax expenses** | **2,059,696** | 449,377 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 12 Income tax expenses (continued)

Notes:

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

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

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the fair value gain of Preferred Shares (Note 35) and the share-based payments (Note 28), are not subject to any income tax.

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

(c) Hong Kong income tax

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

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 35% before April 1, 2019, after then 25% on the assessable profits, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

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

Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**") was qualified as a "Key Software Enterprise" in the third quarter of 2018, hence it enjoys a preferential income tax rate of 10% retroactively from January 1, 2017. Accordingly, Xiaomi Mobile was entitled to tax refund for the income tax paid in 2017 and such tax refund was received by Xiaomi Mobile from local tax bureau in December 2018. Xiaomi Mobile enjoys the preferential EIT rate of 10% for the years ended December 31, 2019 and 2018.

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

(f) Super Deduction for research and development expense

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 12 Income tax expenses (continued)

Notes (continued):

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

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

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

## 13 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$0.0000025 each ("**Share Subdivision**"). Following the Share Subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the 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 RMB'000 | 2018 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 13 Earnings per share (continued)

### (b) Diluted

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

| | 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 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 14 Property and equipment

| | Electronic equipment RMB'000 | Office equipment RMB'000 | Buildings RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At January 1, 2019** | | | | | | |
| Cost | 642,723 | 33,932 | — | 564,076 | 4,543,071 | 5,783,802 |
| Accumulated depreciation | (379,599) | (15,627) | — | (320,523) | — | (715,749) |
| **Net book amount** | 263,124 | 18,305 | — | 243,553 | 4,543,071 | 5,068,053 |
| **Year ended December 31, 2019** | | | | | | |
| Opening net book amount | 263,124 | 18,305 | — | 243,553 | 4,543,071 | 5,068,053 |
| Currency translation differences | 288 | 50 | — | (2,950) | 1 | (2,611) |
| Additions | 372,180 | 2,274 | — | 247,015 | 2,511,206 | 3,132,675 |
| Transfer from construction in progress to buildings | — | — | 2,974,650 | — | (2,974,650) | — |
| Disposal | (50,990) | (10,836) | — | (28,579) | (31,690) | (122,095) |
| Transfer to investment properties (Note 17) | — | — | (707,268) | — | (52,512) | (759,780) |
| Depreciation charge (Note 8) | (126,176) | (2,420) | (17,636) | (177,679) | — | (323,911) |
| **Closing net book amount** | 458,426 | 7,373 | 2,249,746 | 281,360 | 3,995,426 | 6,992,331 |
| **At December 31, 2019** | | | | | | |
| Cost | 887,568 | 22,789 | 2,267,382 | 775,970 | 3,995,426 | 7,949,135 |
| Accumulated depreciation | (429,142) | (15,416) | (17,636) | (494,610) | — | (956,804) |
| **Net book amount** | 458,426 | 7,373 | 2,249,746 | 281,360 | 3,995,426 | 6,992,331 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 14 Property and equipment (continued)

| | Electronic equipment RMB'000 | Office equipment RMB'000 | Buildings RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At January 1, 2018** | | | | | | |
| Cost | 422,515 | 14,317 | — | 331,083 | 1,473,761 | 2,241,676 |
| Accumulated depreciation | (297,588) | (11,870) | — | (201,346) | — | (510,804) |
| **Net book amount** | 124,927 | 2,447 | — | 129,737 | 1,473,761 | 1,730,872 |
| **Year ended December 31, 2018** | | | | | | |
| Opening net book amount | 124,927 | 2,447 | — | 129,737 | 1,473,761 | 1,730,872 |
| Currency translation differences | (330) | (13) | — | (1,010) | 13 | (1,340) |
| Additions | 242,843 | 19,612 | — | 243,364 | 3,119,183 | 3,625,002 |
| Disposals/transfer | (17,071) | (1) | — | — | (49,886) | (66,958) |
| Depreciation charge (Note 8) | (87,245) | (3,740) | — | (128,538) | — | (219,523) |
| **Closing net book amount** | 263,124 | 18,305 | — | 243,553 | 4,543,071 | 5,068,053 |
| **At December 31, 2018** | | | | | | |
| Cost | 642,723 | 33,932 | — | 564,076 | 4,543,071 | 5,783,802 |
| Accumulated depreciation | (379,599) | (15,627) | — | (320,523) | — | (715,749) |
| **Net book amount** | 263,124 | 18,305 | — | 243,553 | 4,543,071 | 5,068,053 |

Construction in progress as of December 31, 2019 and 2018 mainly comprises new office buildings being constructed in mainland China.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 14 Property and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Administrative expenses | 109,466 | 61,216 |
| Selling and marketing expenses | 124,624 | 98,941 |
| Research and development expenses | 75,223 | 59,366 |
| Cost of sales | 14,598 | — |
| | 323,911 | 219,523 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 15 Intangible assets

| | Goodwill (Note (a)) RMB'000 | License RMB'000 | Trademarks, patents and domain name RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At January 1, 2019 | | | | | |
| Cost | 282,090 | 1,408,219 | 1,084,466 | 224,578 | 2,999,353 |
| Accumulated amortization | — | (395,806) | (416,547) | (125,808) | (938,161) |
| Net book amount | 282,090 | 1,012,413 | 667,919 | 98,770 | 2,061,192 |
| Year ended December 31, 2019 | | | | | |
| Opening net book amount | 282,090 | 1,012,413 | 667,919 | 98,770 | 2,061,192 |
| Currency translation differences | — | (29) | (1,200) | 402 | (827) |
| Additions | — | 18,820 | 6,461 | 116,231 | 141,512 |
| Disposals | (33,923) | — | (9,889) | (277) | (44,089) |
| Amortization charge (Note 8) | — | (331,803) | (112,481) | (41,502) | (485,786) |
| Closing net book amount | 248,167 | 699,401 | 550,810 | 173,624 | 1,672,002 |
| At December 31, 2019 | | | | | |
| Cost | 248,167 | 1,426,992 | 1,080,599 | 340,711 | 3,096,469 |
| Accumulated amortization | — | (727,591) | (529,789) | (167,087) | (1,424,467) |
| Net book amount | 248,167 | 699,401 | 550,810 | 173,624 | 1,672,002 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 15 Intangible assets (continued)

| | Goodwill (Note (a)) RMB'000 | License RMB'000 | Trademarks, patents and domain name RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At January 1, 2018** | | | | | |
| Cost | 248,167 | 1,343,686 | 1,003,239 | 107,792 | 2,702,884 |
| Accumulated amortization | — | (63,735) | (280,034) | (84,763) | (428,532) |
| **Net book amount** | 248,167 | 1,279,951 | 723,205 | 23,029 | 2,274,352 |
| **Year ended December 31, 2018** | | | | | |
| Opening net book amount | 248,167 | 1,279,951 | 723,205 | 23,029 | 2,274,352 |
| Currency translation differences | — | — | (10,049) | (106) | (10,155) |
| Additions | 33,923 | 71,723 | 110,283 | 116,949 | 332,878 |
| Disposals | — | (7,190) | — | — | (7,190) |
| Amortization charge (Note 8) | — | (332,071) | (155,520) | (41,102) | (528,693) |
| **Closing net book amount** | 282,090 | 1,012,413 | 667,919 | 98,770 | 2,061,192 |
| **At December 31, 2018** | | | | | |
| Cost | 282,090 | 1,408,219 | 1,084,466 | 224,578 | 2,999,353 |
| Accumulated amortization | — | (395,806) | (416,547) | (125,808) | (938,161) |
| **Net book amount** | 282,090 | 1,012,413 | 667,919 | 98,770 | 2,061,192 |

Note:

(a) For the purpose of impairment tests of goodwill, goodwill is allocated to groups of cash-generating units. Such groups of cash-generating units represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 15 Intangible assets (continued)

Note (continued):

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2019 and 2018 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations by using the discounted cash flow method. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2%. Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2019 and 2018.

Amortization charges were expensed off in the following categories in the consolidated income statement:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Administrative expenses | 33,968 | 77,468 |
| Selling and marketing expenses | 1,080 | 648 |
| Research and development expenses | 450,738 | 450,577 |
| | 485,786 | 528,693 |

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2019 and 2018, no goodwill or other identifiable intangible assets have been impaired.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 16 Leases

| | As of December 31, 2019 RMB'000 | As of January 1, 2019 RMB'000 |
|---|---|---|
| *(i) The consolidated balance sheet includes the following amounts relating to leases:* | | |
| **Right-of-use assets (Note(a))** | | |
| Land use rights | 2,859,297 | 3,389,731 |
| Properties | 915,581 | 859,454 |
| Other assets | 58,222 | 32,754 |
| | 3,833,100 | 4,281,939 |
| **Lease liabilities (Note(b))** | | |
| Current | (399,444) | (285,402) |
| Non-current | (560,804) | (573,431) |
| | (960,248) | (858,833) |

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 16 Leases (continued)

| | Year ended December 31, 2019 RMB'000 |
|---|---|
| *(ii) The consolidated income statement shows the following amounts relating to leases:* | |
| Depreciation charge of right-of-use assets | 571,336 |
| Interest expense (included in finance income, net) | 45,881 |
| Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses) | 563,400 |
| | 1,180,617 |

Besides land use rights, the Group leases offices, warehouses, retail stores and servers. No variable lease payments were contained in lease contracts during the year ended December 31, 2019.

The total cash outflow in financing activities for leases during the year ended December 31, 2019 was RMB578,063,000, including principal elements of lease payments of approximately RMB532,182,000 and related interest paid of approximately RMB45,881,000, respectively.

## 17 Other non-current assets

| | As of December 31, | |
|---|---|---|
| | 2019 RMB'000 | 2018 RMB'000 |
| Right-of-use assets (Note 16) | 3,833,100 | — |
| Investment properties (Note (a)) | 1,250,932 | — |
| Long-term bank deposits | 590,157 | 992 |
| Others | 488,314 | 94,493 |
| | 6,162,503 | 95,485 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 17 Other non-current assets (continued)

Note:

(a) Investment properties

| | Buildings and facilities RMB'000 | Land use right RMB'000 | Investment properties in constructions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| COST | | | | |
| At January 1, 2019 | — | — | — | — |
| Transfer from property and equipment | 711,432 | — | 52,512 | 763,944 |
| Transfer from right-of-use assets | — | 504,895 | — | 504,895 |
| Addition | — | — | 26,801 | 26,801 |
| At December 31, 2019 | 711,432 | 504,895 | 79,313 | 1,295,640 |
| ACCUMULATED DEPRECIATION | | | | |
| At January 1, 2019 | — | — | — | — |
| Charge for the year (Note 8) | (26) | — | — | (26) |
| Transfer from property and equipment | (4,164) | — | — | (4,164) |
| Transfer from right-of-use assets | — | (40,518) | — | (40,518) |
| At December 31, 2019 | (4,190) | (40,518) | — | (44,708) |
| NET BOOK VALUE | | | | |
| At December 31, 2019 | 707,242 | 464,377 | 79,313 | 1,250,932 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 17 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2019 are as follows:

| | As of December 31, 2019 | |
|---|---|---|
| | Carrying amount RMB'000 | Fair value (level 3) RMB'000 |
| Investment property units located in Haidian, Beijing | 1,148,225 | 1,557,120 |

The investment property units located in Haidian, Beijing were valued at December 31, 2019 by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalisation of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31, 2019. The key inputs were term yield and reversionary yield.

The above investment properties are leased to tenants under operating leases with rentals payable semiannually. Lease payments for the contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties as disclosed above.

(ii) Property rental income earned during the year ended December 31, 2019 was approximately RMB8,746,000. The investment property units located in Haidian, Beijing has committed tenants for the next 6 years. The investment properties in constructions located in Yizhuang, Beijing has committed tenants for the next 14 years. As of December 31, 2019, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

| | As of December 31, 2019 RMB'000 |
|---|---|
| No later than 1 year | 94,722 |
| Later than 1 year and no later than 14 years | 570,070 |
| | 664,792 |

(iii) Depreciation charges of approximately RMB26,000 for the year ended December 31, 2019 have been charged in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 18 Financial instruments by category

| | As of December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Assets as per balance sheet** | | |
| Financial assets measured at fair value through profit or loss: | | |
| — Long-term investments measured at fair value through profit or loss (Note 19) | 20,679,363 | 18,636,208 |
| — Short-term investments measured at fair value through profit or loss (Note 19) | 16,463,390 | 6,648,526 |
| Financial assets measured at amortized costs: | | |
| — Trade receivables (Note 21) | 6,948,567 | 5,598,443 |
| — Loan receivables (Note 20) | 12,723,503 | 10,293,645 |
| — Other receivables | 12,246,498 | 12,408,170 |
| — Long-term bank deposits (Note 17) | 590,157 | 992 |
| — Short-term bank deposits (Note 24(c)) | 21,523,043 | 1,365,991 |
| — Restricted cash (Note 24(b)) | 1,538,266 | 1,480,178 |
| — Cash and cash equivalents (Note 24(a)) | 25,919,861 | 30,230,147 |
| | 118,632,648 | 86,662,300 |
| **Liabilities as per balance sheet** | | |
| Financial liabilities measured at amortized cost: | | |
| — Trade payables (Note 30) | 59,527,940 | 46,287,271 |
| — Other payables | 6,080,191 | 4,805,101 |
| — Borrowings (Note 33) | 17,623,411 | 10,931,337 |
| — Investment from fund investors (Note 29) | 3,074,210 | 2,823,504 |
| — Lease liabilities (Note 16) | 960,248 | — |
| | 87,266,000 | 64,847,213 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 19 Investments

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

### (i) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of return ranging from 1.76% to 4.60% per annum for the year ended December 31, 2019 (2018: 2.20% to 5.15%). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 19 Investments (continued)

### (ii) Equity investments

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Listed | 4,778,263 | 5,215,898 |
| Unlisted | 2,494,191 | 2,414,031 |
| | 7,272,454 | 7,629,929 |

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of December 31, 2019, the Group has not elected to recognize the fair value gains or losses on equity investments in OCI.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

### (iii) Preferred shares investments

During the year ended December 31, 2019, the Group made aggregate preferred shares investments of RMB2,675,086,000 (2018: RMB1,102,118,000). These investees are principally engaged in sales of goods and provision of internet services.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 19 Investments (continued)

### (iii) Preferred shares investments (continued)

The conversion of the preference shares in Ninebot and Sunmi owned by the Group into ordinary shares was completed on April 17, 2019 and June 28, 2019, respectively, following which the Group reclassifies the investments to be accounted for using the equity method (Note 11(b)).

### (iv) 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 | 38,390 | 23,526 |
| | 3,813,012 | 4,430,359 |

## 20 Loan receivables

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Unsecured loan | 14,393,240 | 10,995,510 |
| Less: credit loss allowance | (1,669,737) | (701,865) |
| | 12,723,503 | 10,293,645 |

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 21 Trade receivables

Trade receivables analysis is as follows:

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Third parties | 6,740,321 | 5,302,432 |
| Related parties | 324,027 | 364,608 |
| | 7,064,348 | 5,667,040 |
| Less: credit loss allowance | (115,781) | (68,597) |
| | 6,948,567 | 5,598,443 |

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| RMB | 3,757,863 | 3,285,845 |
| INR | 1,758,770 | 1,464,621 |
| US$ | 1,239,122 | 795,971 |
| Others | 192,812 | 52,006 |
| | 6,948,567 | 5,598,443 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 21 Trade receivables (continued)

Movements on the Group's credit loss allowance of trade receivables are as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| At the beginning of the year | (68,597) | (56,820) |
| Credit loss allowance recognized, net | (79,712) | (11,777) |
| Receivables written off during the year as uncollectable | 32,528 | — |
| At the end of the year | (115,781) | (68,597) |

(a) 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 |
| | 7,064,348 | 5,667,040 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 21 Trade receivables (continued)

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses below also incorporate forward looking information. The loss provisions as of December 31, 2018 and 2019 are determined as follows:

| | Current | Up to 3 months past due | 3 to 6 months past due | Over 6 months past due | Total |
|---|---|---|---|---|---|
| **December 31, 2019:** | | | | | |
| Expected loss rate | **0.03%** | **1.29%** | **9.55%** | **50.14%** | |
| Gross carrying amount (in thousand) | **5,822,380** | **856,086** | **222,699** | **163,183** | **7,064,348** |
| Loss provision (in thousand) | **1,627** | **11,066** | **21,269** | **81,819** | **115,781** |
| **December 31, 2018:** | | | | | |
| Expected loss rate | 0.01% | 0.99% | 34.22% | 52.85% | |
| Gross carrying amount (in thousand) | 4,992,793 | 532,901 | 64,006 | 77,340 | 5,667,040 |
| Loss provision (in thousand) | 562 | 5,261 | 21,902 | 40,872 | 68,597 |

As of December 31, 2019 and 2018, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 22 Prepayments and other receivables

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties | 9,292,072 | 10,043,378 |
| Recoverable value-added tax and other taxes | 6,782,745 | 7,811,161 |
| Prepayments to suppliers | 394,090 | 467,418 |
| Deposits to suppliers | 375,868 | 569,598 |
| Receivables from market development fund | 895,773 | 822,809 |
| Prepaid fees for patent expenses and other prepaid expenses | 413,685 | 228,197 |
| Receivables from import and export agents | 186 | 52,263 |
| Receivables from employees related to Employee Fund (Note (a)) | 103,900 | 110,950 |
| Interest receivables | 254,912 | 231,819 |
| Receivables from disposal of investments | 4,306 | 35,226 |
| Loans to related parties (Note (b)) | 37,802 | 7,979 |
| Receivables related to share options and RSUs granted to employees | 862,545 | — |
| Others | 419,134 | 534,148 |
| | 19,837,018 | 20,914,946 |

Notes:

(a) Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 28.

(b) Loans to related parties were unsecured, repayable on demand and carried interest rate at ceiling of 8% per annum (2018: 8%).

As of December 31, 2019 and 2018, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, receivables from import and export agents, receivables from market development fund, receivables from employees related to Employee Fund, receivables from disposal of investments, interest receivables, loans to related parties, receivables related to share options and RSUs granted to employees and others were considered to be of low credit risk, and thus credit loss allowance recognized during the year ended December 31, 2019 and 2018 was limited to 12 months expected losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 23 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 |
| | 33,459,397 | 31,332,736 |
| Less: provision for impairment (Note (a)) | (873,959) | (1,852,051) |
| | 32,585,438 | 29,480,685 |

Note:

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB3,859,675,000 for the year ended December 31, 2019 (2018: RMB3,006,525,000).

Provision for impairment movements for the years ended December 31, 2019 and 2018 are as below:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| At the beginning of the year | (1,852,051) | (668,142) |
| Provision for impairment | (3,859,675) | (3,006,525) |
| Transfer to cost of sales upon sold | 4,837,767 | 1,822,616 |
| At the end of the year | (873,959) | (1,852,051) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 24 Cash and bank balances

### (a) Cash and cash equivalents

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Cash at bank and in hand | 13,355,455 | 10,958,910 |
| Short-term bank deposits with initial terms within three months | 12,564,406 | 19,271,237 |
| | 25,919,861 | 30,230,147 |

Cash and cash equivalents are denominated in the following currencies:

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| US$ | 10,322,132 | 22,189,594 |
| RMB | 9,217,142 | 7,192,491 |
| INR | 3,500,056 | 532,838 |
| Others | 2,880,531 | 315,224 |
| | 25,919,861 | 30,230,147 |

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 2.76% per annum for the year ended December 31, 2019 (2018: 3.24%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 24 Cash and bank balances (continued)

### (b) Restricted cash

As of December 31, 2019, among of the restricted cash, RMB700,987,000 was held at bank to meet requirements of People's Bank of China for reserves of payment institutions, US$84,260,000 (equivalent to approximately RMB587,815,000) was held at Bank of China as guarantee for bank loans. RMB149,427,000 was held at Bank of Ningbo as guarantee for bank acceptance bills.

### (c) Short-term bank deposits

An analysis of the Group's short-term bank deposits as of December 31, 2019 and 2018 are listed as below:

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Short-term bank deposits denominated in RMB | — | 460,000 |
| Short-term bank deposits denominated in INR | 392,823 | 49 |
| Short-term bank deposits denominated in US$ | 20,597,231 | 905,942 |
| Short-term bank deposits denominated in HK$ | 532,989 | — |
| | 21,523,043 | 1,365,991 |

Short-term bank deposits are bank deposits with original maturities over three months and redeemable on maturity.

The effective interest rate of the short-term bank deposits of the Group ranges from 2.38% to 7.30% per annum for the year ended December 31, 2019 (2018: from 2.25% to 6.00%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 25 Share capital and treasury shares

### (a) Share capital

Authorized:

| | Note | Number of ordinary shares '000 | Nominal value of ordinary shares US$'000 | Number of Preferred Shares '000 | Nominal value of Preferred Shares US$'000 |
|---|---|---|---|---|---|
| **As of January 1, 2018** | | 3,489,594 | 87 | 1,051,251 | 26 |
| Effect of Share Subdivision | (a) | 31,406,344 | — | 9,461,254 | — |
| Conversion of Preferred Shares to ordinary shares | (b) | 10,512,505 | 26 | (10,512,505) | (26) |
| Increase of authorized ordinary shares | (c) | 224,591,557 | 561 | — | — |
| **As of December 31, 2018 and 2019** | | **270,000,000** | **674** | **—** | **—** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 25 Share capital and treasury shares (continued)

### (a) Share capital (continued)

Issued:

| | Note | Number of ordinary shares '000 | Nominal value of ordinary shares US$'000 | Equivalent nominal value of ordinary shares RMB'000 | Share premium RMB'000 |
|---|---|---|---|---|---|
| **As of January 1, 2018** | | 978,217 | 24 | 150 | 742,760 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | (d) | 1,500 | — | — | 230,899 |
| Issuance of ordinary shares | (e) | 63,960 | 2 | 11 | 9,827,146 |
| Effect of Share Subdivision | (a) | 9,393,092 | — | — | — |
| Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs | (f) | 1,635,926 | 4 | 27 | 23,248,593 |
| Conversion of Preferred Shares to ordinary shares | (b) | 10,504,922 | 26 | 174 | 151,100,334 |
| Release of ordinary shares from Share Scheme Trust | (g) | — | 2 | 15 | 933,592 |
| Issuance of ordinary shares to Share Scheme Trust | (g) | 1,048,806 | — | — | — |
| Share premium set off the accumulated losses and other reserves | (h) | — | — | — | (142,232,042) |
| **As of December 31, 2018** | | 23,626,423 | 58 | 377 | 43,851,282 |
| Exercise of share options and RSUs | | 690,361 | 1 | 9 | 1,442,634 |
| Shares repurchased and cancelled | | (227,956) | — | 1 | (1,882,527) |
| Issuance of ordinary shares to Share Scheme Trusts | (g) | 18,567 | — | — | — |
| Release of ordinary shares from Share Scheme Trusts | (g) | — | — | 1 | 167,447 |
| **As of December 31, 2019** | | 24,107,395 | 59 | 388 | 43,578,836 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 25 Share capital and treasury shares (continued)

### (a) Share capital (continued)

Notes:

(a) 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$0.0000025 each.

(b) Upon completion of the initial public offering ("**IPO**"), each issued Preferred Share converted into one Class B ordinary share by re-designation and reclassification of every Preferred Share in issue as an Class B ordinary share on a one for one basis and all the unissued and authorized Preferred Shares were re-designated and reclassified as Class B ordinary shares. As a result, the financial liabilities for Preferred Shares were derecognized and recorded as share capital and share premium.

(c) Upon completion of the re-designation and reclassification noted in (b), the authorized share capital of the Company increased 63,116,143,000 Class A ordinary shares of nominal value of US$0.0000025 each and 161,475,414,000 Class B ordinary shares of nominal value of US$0.0000025 each.

(d) Pursuant to the shareholders' resolution passed on March 30, 2018, 1,500,000 Class B ordinary shares (or 15,000,000 Class B ordinary shares following the Share Subdivision) were issued as consideration shares in exchange for certain indirect equity interests in subsidiary Timi Personal Computing Co., Ltd..

(e) On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

(f) Upon completion of the IPO, the Company issued 1,635,926,000 new shares at par value of US$0.0000025 each for cash consideration of HK$17.00 each, and raised gross proceeds of approximately HK$27,810,742,000 (equivalent to RMB23,525,107,000). The respective share capital amount was approximately RMB27,000 and share premium arising from the issuance was approximately RMB23,248,593,000, net of the share issuance costs. The share issuance costs paid and payable mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which are incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB276,487,000 were treated as a deduction against the share premium arising from the issuance.

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

(h) On December 27, 2018, the Board of Directors passed a resolution that the sum of approximately of RMB142,232,042,000 standing to the credit of the share premium account of the Company was applied to set off the accumulated losses and other reserves of the Company. The accumulated losses of RMB136,652,570,000 was set off and the related currency translation difference of RMB5,579,472,000 was released.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 25 Share capital and treasury shares (continued)

### (b) Treasury shares

| | Number of shares '000 | Amounts RMB'000 |
|---|---|---|
| **As of January 1, 2018 and 2019** | — | — |
| Shares repurchased | 358,196 | 2,932,111 |
| Shares cancelled | (227,956) | (1,879,289) |
| **As of December 31, 2019** | 130,240 | 1,052,822 |

During the year ended December 31, 2019, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

| Month/Year | Number of shares '000 | Highest price paid per share HK$ | Lowest price paid per share HK$ | Aggregate price paid HK$ |
|---|---|---|---|---|
| January 2019 | 19,972 | 10.20 | 9.74 | 199,931,233 |
| June 2019 | 97,928 | 10.04 | 8.96 | 925,210,318 |
| July 2019 | 7,610 | 10.00 | 9.70 | 74,840,553 |
| September 2019 | 91,254 | 9.38 | 8.73 | 824,790,890 |
| October 2019 | 31,115 | 9.12 | 8.82 | 280,023,901 |
| November 2019 | 44,828 | 9.00 | 8.79 | 399,982,282 |
| December 2019 | 65,489 | 9.09 | 8.85 | 589,464,196 |
| Total | 358,196 | | | 3,294,243,373 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 26 Other reserves

| | Share-based compensation reserve RMB'000 | Currency translation differences RMB'000 | Statutory surplus reserve RMB'000 | General reserve RMB'000 | Capital reserve RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At January 1, 2019 | 5,333,233 | 43,442 | 862,680 | — | (55,913) | 263,973 | 6,447,415 |
| Appropriation to statutory reserves (Note (a)) | — | — | 295,047 | — | — | — | 295,047 |
| Appropriation to general reserves | — | — | | 2 | — | — | 2 |
| Employees share-based compensation scheme: | | | | | | | |
| — value of employee services (Note (c) and Note 28) | 2,127,878 | — | — | — | — | — | 2,127,878 |
| — exercise of share options and restricted stock units | (1,184,767) | — | — | — | — | — | (1,184,767) |
| Share of other comprehensive income of investments accounted for using the equity method (Note 11(b)) | — | — | — | — | — | 9,279 | 9,279 |
| Share of other reserves of investments accounted for using the equity method (Note 11(b)) | — | — | — | — | 229,740 | — | 229,740 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | — | — | — | — | (173,904) | — | (173,904) |
| Currency translation differences (Note (b)) | — | 419,471 | — | — | — | — | 419,471 |
| Release of ordinary shares from Share Scheme Trust (Note 25(a)(g)) | (139,015) | — | — | — | — | — | (139,015) |
| At December 31, 2019 | 6,137,329 | 462,913 | 1,157,727 | 2 | (77) | 273,252 | 8,031,146 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 26 Other reserves (continued)

| | Share-based compensation reserve RMB'000 | Currency translation differences RMB'000 | Statutory surplus reserve RMB'000 | Capital reserve RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At January 1, 2018** | 3,816,153 | (3,779,938) | 805,180 | 33,501 | 72,524 | 947,420 |
| Appropriation to statutory reserves (Note (a)) | — | — | 57,808 | — | — | 57,808 |
| Employees share-based compensation scheme: | | | | | | |
| — value of employee services (Note (c) and Note 28) | 2,358,720 | — | — | — | — | 2,358,720 |
| Share of other comprehensive income of investments accounted for using the equity method (Note 11(b)) | — | — | — | — | 191,449 | 191,449 |
| Share of other reserves of investments accounted for using the equity method (Note 11(b)) | — | — | — | 62,657 | — | 62,657 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | — | — | — | (152,071) | — | (152,071) |
| Currency translation differences (Note (b)) | — | (1,756,092) | — | — | — | (1,756,092) |
| Share premium set off the accumulated losses and other reserves (Note 25(a)(h)) | — | 5,579,472 | — | — | — | 5,579,472 |
| Release of ordinary shares from Share Scheme Trust (Note 25(a)(g)) | (841,640) | — | — | — | — | (841,640) |
| Others | — | — | (308) | — | — | (308) |
| **At December 31, 2018** | 5,333,233 | 43,442 | 862,680 | (55,913) | 263,973 | 6,447,415 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 26 Other reserves (continued)

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 28 for detail.

## 27 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2019 and 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-Based Payments

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

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

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 2,237,613,083 Class B ordinary shares. As of December 31, 2019, no option has been granted or agreed to be granted pursuant to Post-IPO Share Option Scheme.

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

Upon the Share Subdivision became effective, pro-rata adjustments have been made to the number of outstanding awarded shares, so as to give the participants the same proportion of the equity capital as that they were entitled to before the effect of the Share Subdivision. However, the number of share options, average exercise price per share option, fair value of share options, key assumptions of fair value of share options, number of RSUs and weighted average grant date fair value per RSU for the year ended December 31, 2018 stated below were before the adjustment for the Share Subdivision.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Pre-IPO ESOP

**Share options granted to employees**

The share options have graded vesting terms, and vest in different schedules from the grant date over one year, 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as one year, all granted share options are vested on the first anniversary of the grant date. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months. For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date. For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively. For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

Under Pre-IPO ESOP, the Company also granted performance-based share options to certain employees, which are generally vested over a 10-year term. The performance goals are determined by the Board of Directors. For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

The options may be exercised at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the share options that have become vested.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Pre-IPO ESOP (continued)

**Share options granted to employees (continued)**

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

| | Number of share options | Average exercise price per share option (US$) |
|---|---|---|
| Outstanding as of January 1, 2019 | 1,433,597,913 | 0.10 |
| Forfeited during the year | (54,982,220) | 0.31 |
| Transferred to Share Scheme Trust (Note 25(a)(g)) | (42,306,480) | 0.10 |
| Exercised during the year | (480,507,306) | 0.04 |
| Outstanding as of December 31, 2019 | 855,801,907 | 0.12 |
| Exercisable as of December 31, 2019 | 340,290,647 | 0.20 |
| Outstanding as of January 1, 2018 (Note (a)) | 189,755,311 | 1.05 |
| Granted during the year (Note (a)) | 42,500,561 | 1.98 |
| Forfeited during the year (Note (a)) | (3,857,990) | 3.26 |
| Transferred to Share Scheme Trust (Note (a), Note 25(a)(g)) | (85,038,091) | 1.58 |
| Effect of Share Subdivision (Note (b)) | 1,290,238,122 | |
| Outstanding as of December 31, 2018 | 1,433,597,913 | 0.10 |
| Exercisable as of December 31, 2018 | 703,071,315 | 0.09 |

Notes:

(a) The numbers of shares were presented as before the effect of the Share Subdivision.

(b) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

The weighted-average remaining contract life for outstanding share options was 6.22 years as of December 31, 2019 (2018: 6.60 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Pre-IPO ESOP (continued)

**Share options granted to employees (continued)**

***Fair value of share options***

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

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

| | Year ended December 31, 2018 |
|---|---|
| Fair value per share (Note (a)) | US$22.99–24.48 |
| Exercise price (Note (a)) | US$1.02–3.44 |
| Risk-free interest rate | 3.12%–3.68% |
| Dividend yield | — |
| Expected volatility | 41.57%–43.21% |
| Expected terms | 10 years |

Note:

(a) The fair value per share and the exercise price presented was before the effect of the Share Subdivision.

The weighted-average fair value of granted shares was US$21.80 (which was adjusted to US$2.18 after the Share Subdivision on June 17, 2018) per share for the year ended December 31, 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Pre-IPO ESOP (continued)

**RSUs granted to employees**

The Company also granted RSUs to the Company's employees under Pre-IPO ESOP. The RSUs granted would vest on the second anniversary from the grant date, and in equal tranches over the remaining years of total vesting period as four or five years, on condition that employees remain in service without any performance requirements.

The RSUs may be settled at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the RSUs that have become vested.

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

| | Number of RSUs | Weighted average grant date fair value per RSU (US$) |
|---|---|---|
| Outstanding as of January 1, 2019 | **207,161,980** | **0.23** |
| Exercised during the year | **(207,161,980)** | **0.23** |
| Outstanding as of December 31, 2019 | **—** | **—** |
| Vested as of December 31, 2019 | **—** | **—** |
| Outstanding as of January 1, 2018 (Note (a)) | 24,492,747 | 2.94 |
| Forfeited during the year (Note (a)) | (3,776,549) | 6.36 |
| Effect of Share Subdivision (Note (b)) | 186,445,782 | |
| Outstanding as of December 31, 2018 | 207,161,980 | 0.23 |
| Vested as of December 31, 2018 | 206,921,978 | 0.23 |

Notes:

(a) The numbers of shares were presented as before the effect of the Share Subdivision.

(b) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Pre-IPO ESOP (continued)

**RSUs granted to employees (continued)**

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

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

The total expenses recognized in the consolidated income statement for aforementioned share-based awards granted to the Group's employees are RMB1,898,081,000 for the year ended December 31, 2019 (2018: RMB2,358,917,000).

**Share based awards granted to Lei Jun**

On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. ("**Xiaomi Finance**") pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as the grant date. Key valuation assumptions include discount rate (post-tax) of 18.5%, risk-free interest rate of 3.99%, volatility of 46%. Accordingly, RMB102,608,000 was recognized as share-based compensation expenses on June 17, 2018 by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Share Award Scheme

**RSUs granted to employees**

The Company granted performance-based RSUs to the Company's employees under Share Award Scheme. The RSUs granted would vest in different schedules from the service commencement date over one year, 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as one year, all granted RSUs are vested on the first anniversary of the service commencement date. For vesting schedule as 4 years, 25% of granted RSUs are vested on every anniversary of the service commencement date over the vesting period. For vesting schedule as 5 years, 40% of granted RSUs are vested on the second anniversary of the service commencement date, and every 20% of granted RSUs are vested on the third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 20% of granted RSUs are vested on the second anniversary of the service commencement date, and every 10% of granted RSUs are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

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

| | Number of RSUs | Weighted average grant date fair value per RSU (US$) |
|---|---|---|
| Outstanding as of January 1, 2019 | — | — |
| Granted during the year | 98,449,031 | 1.20 |
| Forfeited during the year | (5,415,702) | 1.22 |
| Transferred to Share Scheme Trust (Note 25(a)(g)) | (234,396) | 1.45 |
| Exercised during the year | (2,692,000) | 1.39 |
| Outstanding as of December 31, 2019 | 90,106,933 | 1.20 |
| Exercisable as of December 31, 2019 | 40,000 | 1.45 |

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 9.45 years as of December 31, 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 28 Share-based payments (continued)

### Share Award Scheme (continued)

**RSUs granted to employees (continued)**

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

The total expenses recognized in the consolidated income statement for RSUs granted to the Group's employees under Share Award Scheme are RMB229,886,000 for the year ended December 31, 2019.

### Employee fund

On August 31, 2014, the Board of Directors of the Company approved the establishment of the Employee Fund with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the "**Lockup Period**"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of December 31, 2019.

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB73,755,000 for the year ended December 31, 2019 (2018: RMB91,986,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 29 Other non-current liabilities

| | As of December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Liabilities to fund investors (Note (a)) | 3,074,210 | 2,823,504 |
| Lease liability (Note 16) | 560,804 | — |
| Others | 121,197 | 21,355 |
| | 3,756,211 | 2,844,859 |

Note:

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

## 30 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 RMB'000 | 2018 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 |
| | 59,527,940 | 46,287,271 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 31 Other payables and accruals

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Amounts collected for third parties | 1,428,500 | 1,628,230 |
| Payroll and welfare payables | 1,165,183 | 795,593 |
| Deposits payable | 1,114,853 | 953,132 |
| Employee Fund (Note 28) | 604,187 | 553,108 |
| Accrual expenses | 1,202,807 | 499,295 |
| Payables for construction cost | 1,275,467 | 619,935 |
| Payables for investments | 2,500 | 222,382 |
| Other taxes payables | 624,350 | 192,182 |
| Lease liabilities (Note 16) | 399,444 | — |
| Payables related to share options and RSUs granted to employees | 484,896 | — |
| Others | 799,156 | 848,913 |
| | 9,101,343 | 6,312,770 |

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2019 and 2018.

## 32 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Contract liabilities are presented in advance from customers, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2019, the total contract liabilities amounted to RMB7,248,982,000 (2018: RMB4,054,595,000), which will be recognized as revenue within one year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 33 Borrowings

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

Notes:

(a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("**ABS**"). As of December 31, 2019, the total ABS amounting to RMB4,952,641,000 (2018: RMB3,339,097,000) bore interest at 4.15%-7.74% per annum.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of December 31, 2019, the fund raised through trust amounting to RMB870,000,000 (2018: RMB648,390,000) bore interest at 7.29%-8.00% per annum in 2019. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature in 2020 and 2021.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 33 Borrowings (continued)

Notes (continued):

(c) As of December 31, 2019, RMB2,225,856,000 (2018: RMB1,260,941,000) of borrowings were secured by construction in progress and land use rights amounting to approximately RMB4,082,853,000 (2018: RMB4,082,853,000). The interest rate of these borrowings was 4.66%-4.90% per annum. RMB400,000,000 of these borrowings should be repaid in 2020, the remaining amounts with RMB1,443,920,000 should be repaid by the end of March 23, 2027, RMB63,387,000 should be repaid by the end of December 12,2027 and RMB318,549,000 should be repaid by the end of September 27, 2032.

As of December 31, 2019, RMB808,886,000 (2018: nil) of short term borrowings were secured by commercial paper, RMB587,815,000 (2018: nil) of short term borrowings were secured by restricted deposits.

(d) As of December 31, 2019, the Group had US$500,000,000 (equivalent to approximately RMB3,488,100,000) unsecured borrowings relating to a three-year bank loan facility agreement entered into on July 26, 2017 with the available commitment US$1,000,000,000 (equivalent to approximately RMB6,976,200,000) including US$500,000,000 (equivalent to approximately RMB3,488,100,000) term loan and US$500,000,000 (equivalent to approximately RMB3,488,100,000) revolving loan, which should be repaid by the Group on July 25, 2020.

The Group had RMB1,411,718,000 (2018: nil) unsecured borrowings with interest rate 4.20% per annum, RMB77,923,000 (2018: nil) unsecured borrowings with interest rate 2.82% per annum, RMB249,216,000 (2018: nil) unsecured borrowings with interest rate 4.13% per annum, RMB190,000,000 (2018: nil) unsecured borrowings with interest rate 6.43% per annum, RMB1,500,000,000 (2018: nil) unsecured borrowings with interest rate 2.92% per annum, RMB667,763,000 (2018: nil) unsecured borrowings with interest rate 6-month London Inter Bank Offered Rate ("**LIBOR**") + 1% per annum. All of these borrowings should be repaid by the Group in 2020.

The Group had RMB400,000,000 (2018: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by the Group in 2020.

The Group had RMB206,000,000 (2018: nil) unsecured borrowings with interest rate 4.66% per annum which should be repaid by the end of November 26, 2029.

For the year ended December 31, 2019, the interest rate of the interest-bearing liabilities ranges from 2.82% to 8.00% per annum (2018: from 2.22% to 9.00%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 34 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB122,961,000 as of December 31, 2019 (2018: RMB93,750,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **Deferred income tax assets:** | | |
| — to be recovered after 12 months | 560,577 | 625,671 |
| — to be recovered within 12 months | 845,799 | 780,324 |
| | 1,406,376 | 1,405,995 |
| **Deferred income tax liabilities:** | | |
| — to be settled after 12 months | (700,275) | (870,082) |
| — to be settled within 12 months | (2,588) | (1,313) |
| | (702,863) | (871,395) |

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

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **At the beginning of the year** | 1,405,995 | 721,389 |
| Credited to the consolidated income statement | 381 | 684,606 |
| **At the end of the year** | 1,406,376 | 1,405,995 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 34 Deferred income taxes (continued)

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

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **At the beginning of the year** | **(871,395)** | (1,148,464) |
| Credited to the consolidated income statement | **168,532** | 280,619 |
| Acquisition of a subsidiary | **—** | (3,550) |
| **At the end of the year** | **(702,863)** | (871,395) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 34 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

| | Accrued liabilities and provisions RMB'000 | Provision for impairment of inventories RMB'000 | Depreciation of property and amortization of intangible assets RMB'000 | Tax losses RMB'000 | Fair value changes of financial assets RMB'000 | Credit loss allowance RMB'000 | Unrealized gain on intra-group transactions RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| At January 1, 2019 | 231,460 | 385,369 | 93,677 | 359,199 | 80,341 | 92,961 | 156,440 | 6,548 | 1,405,995 |
| Credited/(debited) to consolidated income statement | 100,898 | (265,570) | (4,192) | 13,707 | 274 | 49,892 | 94,350 | 11,022 | 381 |
| At December 31, 2019 | 332,358 | 119,799 | 89,485 | 372,906 | 80,615 | 142,853 | 250,790 | 17,570 | 1,406,376 |
| At January 1, 2018 | 267,649 | 148,193 | 93,119 | 62,019 | 55,991 | 41,186 | 44,696 | 8,536 | 721,389 |
| (Debited)/credited to consolidated income statement | (36,189) | 237,176 | 558 | 297,180 | 24,350 | 51,775 | 111,744 | (1,988) | 684,606 |
| At December 31, 2018 | 231,460 | 385,369 | 93,677 | 359,199 | 80,341 | 92,961 | 156,440 | 6,548 | 1,405,995 |

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

As of December 31, 2019, the Group did not recognize deferred income tax assets of RMB966,068,000 (2018: RMB520,995,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB3,479,308,000 (2018: RMB2,293,425,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2019 amounting to RMB27,395,000 (2018: RMB11,237,000) can be carried forward indefinitely, and the remaining amount of RMB3,377,006,000 (2018: RMB2,025,938,000) will expire within 9 years (2018: 10 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 34 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows (continued):

Deferred income tax liabilities:

| | Changes in fair value of financial assets RMB'000 | Business combination RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At January 1, 2019** | (868,381) | (3,014) | (871,395) |
| Credited to consolidated income statement | 168,106 | 426 | 168,532 |
| **At December 31, 2019** | (700,275) | (2,588) | (702,863) |
| **At January 1, 2018** | (1,147,419) | (1,045) | (1,148,464) |
| Credited to consolidated income statement | 279,038 | 1,581 | 280,619 |
| Acquisition of a subsidiary | — | (3,550) | (3,550) |
| **At December 31, 2018** | (868,381) | (3,014) | (871,395) |

## 35 Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares. On July 9, 2018, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited and made an offering of 2,179,585,000 Class B ordinary shares (excluding any Class B ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$17.00 per share. All Preferred Shares were converted into Class B ordinary shares upon completion of the IPO on July 9, 2018. The fair value of each of Preferred Share on the conversion date is the Offer Price in the Global Offering. The movement of the Preferred Shares for the year ended December 31, 2018 is set out as below:

| | RMB'000 |
|---|---|
| **At January 1, 2018** | 161,451,203 |
| Changes in fair value | (12,514,279) |
| Currency translation differences | 2,163,584 |
| Conversion to ordinary shares | (151,100,508) |
| **At December 31, 2018** | — |

Changes in fair value of Preferred Shares were recorded in "fair value changes of convertible redeemable preferred shares" in the consolidated income statement. Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 36 Cash flow information

### (a) Cash generated from operations

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **Profit before income tax** | 12,162,646 | 13,927,124 |
| Adjustments for: | | |
| — Depreciation of property and equipment, right-of-use assets and investment properties | 895,273 | 219,523 |
| — Amortization of intangible assets | 485,786 | 528,693 |
| — Gain on disposal of property and equipment | (5,909) | (10,295) |
| — Credit loss allowance for trade and other receivables | 83,357 | 33,211 |
| — Credit loss allowance for loan receivables | 1,015,619 | 607,180 |
| — Impairment provision for inventories | 3,859,675 | 3,006,525 |
| — Interest income | (930,889) | (601,065) |
| — Interest expense | 528,460 | 384,692 |
| — Dividend income | (347,205) | (131,804) |
| — Share of losses of investments accounted for using the equity method | 671,822 | 614,920 |
| — Remeasurement of investments transferring from financial assets measured at fair value through profit or loss to investments accounted for using the equity method | — | (126,614) |
| — Net gains on disposals of long-term investments measured at fair value through profit or loss | — | (28,176) |
| — Losses on disposal of an investment accounted for using the equity method | 13,376 | — |
| — Fair value changes of convertible redeemable preferred shares | — | (12,514,279) |
| — Fair value gains on long-term investments measured at fair value through profit or loss | (3,813,012) | (4,430,359) |
| — Share-based compensation | 2,201,722 | 12,380,668 |
| — Foreign exchanges (gains)/losses, net | (34,632) | 14,550 |
| — Investment income from short-term investments measured at fair value through profit or loss | (386,461) | (335,695) |
| — Investment income from short-term investments measured at amortized cost | — | (20,199) |
| Operating cash flows before changes in working capital | | |
| — Increase in inventories | (6,964,428) | (16,114,975) |
| — Increase in trade receivables | (1,276,714) | (91,003) |
| — Increase in loan receivables | (3,448,312) | (2,752,183) |
| — Decrease/(increase) in prepayments and other receivables | 1,956,740 | (9,463,591) |
| — (Increase)/decrease in restricted cash | (136,394) | 294,753 |
| — Increase in trade payables | 13,534,575 | 12,627,385 |
| — Increase in advance from customers | 3,758,590 | 1,050,583 |
| — Increase/(decrease) in warranty provision | 983,654 | (51,600) |
| — Increase in other payables and accruals | 1,045,058 | 1,118,058 |
| — Increase/(decrease) in other non-current liabilities | 99,842 | (13,856) |
| **Cash generated from operations** | 25,952,239 | 122,171 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 36 Cash flow information (continued)

### (b) Proceeds from disposal of property and equipment

In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Net book amount (Note 14) | 61,826 | 17,072 |
| Gain on disposal of property and equipment | 5,909 | 10,295 |
| **Proceeds from disposal of property and equipment** | 67,735 | 27,367 |

### (c) Non-cash transactions

Other than the addition of right-of-use assets and lease liabilities described in Note 16, and the reclassification of the investment in associates measured at fair value through profit or loss to investment accounted for using the equity method as described in Note 11(b), there were no material non-cash transactions for the year ended December 31, 2019.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 36 Cash flow information (continued)

### (d) Reconciliation of liabilities generated from financing activities

| | Liabilities from financing activities | | | | | |
|---|---|---|---|---|---|---|
| | Borrowing due within 1 year RMB'000 | Borrowing due after 1 year RMB'000 | Convertible redeemable preferred shares RMB'000 | Interest payable RMB'000 | Lease liabilities RMB'000 | Total RMB'000 |
| **Liabilities from financing activities as of January 1, 2019** | 3,075,194 | 7,856,143 | — | 96,192 | 858,833 | 11,886,362 |
| Cash flows | 1,790,061 | 4,829,238 | — | (218,994) | (578,063) | 5,822,242 |
| Accrued interest expenses | — | — | — | 201,761 | — | 201,761 |
| Foreign exchange adjustments | (52,214) | 108,711 | — | — | — | 56,497 |
| Reclassification from non-current to current | 8,024,034 | (8,024,034) | — | — | — | — |
| Leases | — | — | — | — | 679,478 | 679,478 |
| Others | (520) | 16,798 | — | — | — | 16,278 |
| **Liabilities from financing activities as of December 31, 2019** | 12,836,555 | 4,786,856 | — | 78,959 | 960,248 | 18,662,618 |
| **Liabilities from financing activities as of January 1, 2018** | 3,550,801 | 7,251,312 | 161,451,203 | 5,742 | — | 172,259,058 |
| Cash flows | (5,928,062) | 5,691,840 | — | (243,966) | — | (480,188) |
| Accrued interest expenses | — | — | — | 334,416 | — | 334,416 |
| Fair value changes of convertible redeemable preferred shares | — | — | (12,514,279) | — | — | (12,514,279) |
| Foreign exchange adjustments | (14,290) | 418,950 | 2,163,584 | — | — | 2,568,244 |
| Conversion of Preferred Shares to ordinary shares | — | — | (151,100,508) | — | — | (151,100,508) |
| Reclassification from non-current to current | 5,466,745 | (5,466,745) | — | — | — | — |
| Others | — | (39,214) | — | — | — | (39,214) |
| **Liabilities from financing activities as of December 31, 2018** | 3,075,194 | 7,856,143 | — | 96,192 | — | 11,027,529 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 37 Contingencies

The Group did not have any material contingent liabilities as of December 31, 2019 and 2018.

## 38 Commitments

### (a) Capital commitments

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

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Property and equipment | 1,747,044 | 1,825,343 |
| Intangible assets | 28,810 | 57,778 |
| Investments | 217,506 | 137,176 |
| | 1,993,360 | 2,020,297 |

### (b) Operating lease commitments

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

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Not later than 1 year | 305,186 | 560,926 |
| Later than 1 year and not later than 5 years | — | 385,038 |
| Later than 5 years | — | 83,276 |
| | 305,186 | 1,029,240 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions (continued)

### (a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the year.

| Company | Relationship |
|---|---|
| Nanchang Blackshark Technology Co.,Ltd. (Note 11(b)) | Associate of the Group |
| Beijing iQIYI Science & Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Shanghai iQIYI Culture Media Co., Ltd. (Note 11(b)) | Associate of the Group |
| Beijing Particle Information Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Foshan Yunmi Electric Appliances Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Zhuhai Kingsoft Online Game Technology Co., Ltd. | Associate of the Group |
| Beijing Kingsoft Cloud Technology Co., Ltd. | Associate of the Group |
| Chengdu Qushui Science and Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Anhui Huami Information Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Beijing SmartMi Electronic Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Jiangsu Zimi Electronic Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Shenzhen Rock Times Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Tiinlab Acoustic Technology Ltd. (Note (a)) | Associate of the Group |
| Dongguan Yingsheng Electronic Technology Co., Ltd. | Associate of the Group |
| Shanghai Chuangmi Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Shanghai Runmi Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Soocare (Shenzhen) Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Ningbo Minij Trading Co., Ltd. | Associate of the Group |
| Shenzhen Lumi Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Zimi Communication Technology (Jiangsu) Co., Ltd. | Associate of the Group |
| Longcheer Technology (Huizhou) Co., Ltd. (Note 11(b)) | Associate of the Group |
| Shanghai Chunmi Electronic Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Qingdao Yeelink Information Technology Co., Ltd. (Note (a)) | Associate of the Group |
| 21 Vianet Group Inc. | Associate of the Group |
| Beijing Fengmi Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Liesheng Technology (Dongguan) Co.,Ltd. | Associate of the Group |
| Chunmi Technology (Wuhu) Co., Ltd. (Note (a)) | Associate of the Group |
| Nanchang Longcheer Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Forewin FPC (Suzhou) Co., Ltd. (Note (a)) | Associate of the Group |
| ChingMi (Beijing) Technology Co., Ltd. (Note 11(b)) | Associate of the Group |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions (continued)

### (a) Names and relationships with related parties (continued)

| Company | Relationship |
|---|---|
| Shanghai Minij Internet Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Guolong Information Technology (Shanghai) Co., Ltd. | Associate of the Group |
| Dreame Technology (Tianjin) Ltd. (Note (a)) | Associate of the Group |
| Hannto Technology Co., Ltd. (Note (a)) | Associate of the Group |
| LeXiu Technology (Hangzhou) Co., Ltd. (Note (a)) | Associate of the Group |
| Zhejiang Xingyue Electric Equipment Co., Ltd. (Note (a)) | Associate of the Group |
| PL-Mi (Shanghai) Co., Ltd. (Note 11(b)) | Associate of the Group |
| Beijing Yuemi Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| QingHeXiaoBei (Wuxi) Inc. | Associate of the Group |
| Nanjing Jiqidao Smart Technology Co., Ltd. | Associate of the Group |
| Miaobo Software Technology (Shanghai) Co., Ltd. (Note 11(b)) | Associate of the Group |
| Beijing Miiiw Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Dongguan Powerise Fashion Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Qiji (Xiamen) Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Turok Steinhardt (Beijing) Optical Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Tianjin Smate Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Beijing KingSmith Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Shanghai Kaco Industrial Co., Ltd. (Note (a)) | Associate of the Group |
| Beijing Madv Technology Co., Ltd. (Note (a)) | Associate of the Group |
| XiaoHou Technology Co., Ltd. (Note (a)) | Associate of the Group |
| Shoulder Electronics Ltd. (Note (a)) | Associate of the Group |
| Qingping Technology (Beijing) Co., Ltd. (Note (a)) | Associate of the Group |
| Ningbo Sawadika Electrical Appliance Co., Ltd. (Note (a)) | Associate of the Group |
| Shanghai Sunmi Technology Co., Ltd. (Note (a)) | Associate of the Group |
| MiaoMiaoCe Technology (Beijing) Co., Ltd. (Note (a)) | Associate of the Group |
| Sichuan Xin Wang Bank Co., Ltd. (Note 11(b)) | Associate of the Group |
| Shanghai Longcheer Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Beijing Runzhi Commercial Management Co., Ltd. | Associate of the Group |
| Shunwei Ventures II (Hong Kong) Ltd. | Controlled by a director |
| China Resources Land Construction Business Unit | Associate of the Group |
| Nanjing Bigfish Semiconductor Company Ltd. (Note 11(b)) | Associate of the Group |
| Zhuhai Samyou Environmental Technology Co., Ltd. (Note 11(b)) | Associate of the Group |
| Khorgos Puli Network Technology Co., Ltd. | Associate of the Group |
| Blackshark H.K Ltd. (Note 11(b)) | Associate of the Group |
| Beijing Xiaomi Insurance Co., Ltd. (Note 11(b)) | Associate of the Group |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions (continued)

### (a) Names and relationships with related parties (continued)

Notes:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

### (b) Significant transactions with related parties

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **(i) Sales of goods and services** | | |
| Associates of the Group | 1,666,141 | 1,153,491 |
| Associates of Lei Jun | 2,156 | 25,376 |
| | 1,668,297 | 1,178,867 |
| **(ii) Purchases of goods and services** | | |
| Associates of the Group | 27,221,258 | 18,634,514 |
| Associates of Lei Jun | 517 | 14,768 |
| | 27,221,775 | 18,649,282 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions (continued)

### (c) Year end balances with related parties

| | As of December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **(i) Trade receivables from related parties** | | |
| Associates of the Group | 324,027 | 361,792 |
| Associates of Lei Jun | — | 2,816 |
| | 324,027 | 364,608 |
| **(ii) Trade payables to related parties** | | |
| Associates of the Group | 6,061,497 | 4,004,778 |
| Associates of Lei Jun | 1,829 | 1,916 |
| | 6,063,326 | 4,006,694 |
| **(iii) Other receivables from related parties** | | |
| Associates of the Group | 373,071 | 243,126 |
| **(iv) Other payables to related parties** | | |
| Associates of the Group | 861,736 | 770,032 |
| Controlled by a director | 79,466 | 76,966 |
| Associates of Lei Jun | 7,476 | 7,652 |
| | 948,678 | 854,650 |
| **(v) Prepayments** | | |
| Associates of the Group | 136,899 | 88,289 |
| **(vi) Advance from customers** | | |
| Associates of the Group | 28,308 | 35,862 |
| Associates of the Lei Jun | 14 | 14 |
| | 28,322 | 35,876 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions (continued)

### (d) Loans to related parties

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **Loans to associates:** | | |
| At the beginning of the year | 7,979 | 62,143 |
| Loans advanced | 34,934 | 50,000 |
| Loans repaid | (6,000) | (103,116) |
| Interest charged | 962 | 1,921 |
| Interest received | (70) | (2,210) |
| Currency translation differences | (3) | (759) |
| At the end of the year | 37,802 | 7,979 |

### (e) Loans from related parties

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| **Loans from associates:** | | |
| At the beginning of the year | — | 51,336 |
| Loans repaid | — | (50,958) |
| Interest charged | — | 146 |
| Interest paid | — | (855) |
| Currency translation differences | — | 331 |
| At the end of the year | — | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 Related party transactions (continued)

### (f) Key management compensation

| | Year ended December 31, | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Salaries | **11,676** | 15,124 |
| Discretionary bonuses | **7,600** | 1,200 |
| Share-based compensation | **428,811** | 10,464,196 |
| Employer's contribution to pension schedule | **1,159** | 989 |
| | **449,246** | 10,481,509 |

## 40 Events after the reporting period

An outbreak of Coronavirus Disease 2019 ("**COVID-19**") has been emerged since January 2020, and has been declared as a Public Health Emergency of International Concern on January 30, 2020 and subsequently characterized as a pandemic on March 11, 2020 by the World Health Organization. The Group has been paying close attention to the development of the COVID-19 outbreak and has conducted an assessment of its impact on the financial position and operating results of the Group.

As of the date on which this set of financial statements were authorized for issue, the Group has identified some factors which might have impact on the Group's financial performance, including offline hardware sales, supply chains, and overseas demand, etc. The Group will closely monitor the latest development of the COVID-19 outbreak so as to adopt positive counter-measures to overcome any challenges arising and to assess the related impact to the Group on a continuous basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 41 Financial position and reserve movement of the Company

### (a) Financial position of the Company

| | As of December 31, 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property and equipment | 35 | 35 |
| Investment in subsidiaries | 17,854,701 | 13,434,702 |
| Other assets | 78 | 77 |
| | 17,854,814 | 13,434,814 |
| **Current assets** | | |
| Prepayments and other receivables | 21,319,432 | 30,217,183 |
| Cash and cash equivalents | 58,359 | 5,707 |
| | 21,377,791 | 30,222,890 |
| **Total assets** | 39,232,605 | 43,657,704 |
| **Equity and liabilities** | | |
| **Equity attributable to owners of the Company** | | |
| Share capital | 388 | 377 |
| Reserves (Note 41(b)) | 39,223,583 | 39,159,983 |
| **Total equity** | 39,223,971 | 39,160,360 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Other payables and accruals | 8,634 | 4,497,344 |
| | 8,634 | 4,497,344 |
| **Total liabilities** | 8,634 | 4,497,344 |
| **Total equity and liabilities** | 39,232,605 | 43,657,704 |

The balance sheet of the Company was approved by the Board of Directors on March 31, 2020 and was signed on its behalf:

Lei Jun

Lin Bin

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 41 Financial position and reserve movement of the Company (continued)

### (b) Reserve movement of the Company

| | Treasury shares RMB'000 | Share premium RMB'000 | Share-based compensation reserve RMB'000 | Currency translation differences RMB'000 | Capital reserve RMB'000 | Accumulated losses RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **At January 1, 2019** | – | 43,851,282 | 5,436,038 | 985,481 | 25,950 | (11,148,160) | 9,392 | 39,159,983 |
| Purchase of own shares | (2,932,111) | – | – | – | – | – | – | (2,932,111) |
| Cancellation of shares | 1,879,289 | (1,882,527) | – | – | – | – | – | (3,238) |
| Release of ordinary shares from Share Scheme Trust | – | 167,447 | (139,015) | – | – | – | – | 28,432 |
| Employees share-based compensation scheme: | | | | | | | | |
| – value of employee services (Note 28) | – | – | 2,127,967 | – | – | – | – | 2,127,967 |
| – exercise of share options and restricted stock units (Note 28) | – | 1,442,634 | (1,184,767) | – | – | – | – | 257,867 |
| Currency translation differences (Note (a)) | – | – | – | 508,584 | – | – | – | 508,584 |
| Profit for the year | – | – | – | – | – | 76,099 | – | 76,099 |
| **At December 31, 2019** | (1,052,822) | 43,578,836 | 6,240,223 | 1,494,065 | 25,950 | (11,072,061) | 9,392 | 39,223,583 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 41 Financial position and reserve movement of the Company (continued)

### (b) Reserve movement of the Company (continued)

| | Share premium RMB'000 | Share-based compensation reserve RMB'000 | Currency translation differences RMB'000 | Capital reserve RMB'000 | Accumulated losses RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At January 1, 2018** | 742,760 | 3,816,153 | (3,495,173) | 25,950 | (150,421,487) | 9,392 | (149,322,405) |
| Issuance of ordinary shares | 9,827,146 | – | – | – | – | – | 9,827,146 |
| Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs | 23,248,593 | – | – | – | – | – | 23,248,593 |
| Release of ordinary shares from Share Scheme Trust | 933,592 | (841,640) | – | – | – | – | 91,952 |
| Conversion of convertible redeemable preferred shares to ordinary shares | 151,100,334 | – | – | – | – | – | 151,100,334 |
| Employees share-based compensation scheme: | | | | | | | |
| – value of employee services (Note 28) | – | 2,461,525 | – | – | – | – | 2,461,525 |
| Acquisition of additional equity interests in non-wholly owned subsidiaries | 230,899 | – | – | – | – | – | 230,899 |
| Currency translation differences (Note (a)) | – | – | (1,098,818) | – | – | – | (1,098,818) |
| Share premium set off the accumulated losses and other reserves | (142,232,042) | – | 5,579,472 | – | 136,652,570 | – | – |
| Profit for the year | – | – | – | – | 2,620,757 | – | 2,620,757 |
| **At December 31, 2018** | 43,851,282 | 5,436,038 | 985,481 | 25,950 | (11,148,160) | 9,392 | 39,159,983 |

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

# DEFINITIONS

| | |
|---|---|
| **"affiliate"** | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| **"Articles" or "Articles of Association"** | the articles of association of the Company adopted on June 17, 2018 with effect from Listing, as amended from time to time, |
| **"associate(s)"** | has the meaning ascribed to it in the Listing Rules |
| **"Auditor"** | PricewaterhouseCoopers, the external auditor of the Company |
| **"Beijing Digital Technology"** | Beijing Xiaomi Digital Technology Co., Ltd.* (北京小米數碼科技有限公司), a limited liability company established under the laws of mainland China on December 21, 2010 and our indirect wholly-owned subsidiary |
| **"Beijing Duokan"** | Beijing Doukan Technology Co., Ltd.* (北京多看科技有限公司), a limited liability company established under the laws of mainland China on February 10, 2010 and our Consolidated Affiliated Entity |
| **"Beijing Electronic Software"** | Beijing Xiaomi Electronic Software Co., Ltd.* (北京小米電子軟件技術有限公司), a limited liability company established under the laws of mainland China on July 1, 2014 and our Consolidated Affiliated Entity |
| **"Beijing Wali Culture"** | Beijing Wali Culture Communication Co., Ltd.* (北京瓦力文化傳播有限公司), a limited liability company established under the laws of mainland China on May 8, 2014 and our Consolidated Affiliated Entity |
| **"Beijing Wali Internet"** | Beijing Wali Internet Technologies Co., Ltd.* (北京瓦力網絡科技有限公司), a limited liability company established under the laws of mainland China on June 1, 2009 and our Consolidated Affiliated Entity |
| **"Beijing Wenmi"** | Beijing Wenmi Culture Co., Ltd* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our wholly-owned subsidiary |

| | |
|---|---|
| **"Board"** | our Board of Directors |
| **"CEO"** | chief executive officer |
| **"CFO"** | chief financial officer |
| **"CG Code"** | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules |
| **"Class A Shares"** | class A ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company's general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share |
| **"Class B Shares"** | class B ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings |
| **"Co-founder"** | Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping |
| **"Companies Ordinance"** | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| **"Company", "our Company", or "the Company"** | Xiaomi Corporation 小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010 |
| **"Compliance Advisor"** | Guotai Junan Capital Limited, being the compliance advisor of the Company |
| **"connected person(s)"** | has the meaning ascribed to it in the Listing Rules |

# DEFINITIONS

| | |
|---|---|
| **"connected transaction(s)"** | has the meaning ascribed to it in the Listing Rules |
| **"Consolidated Affiliated Entities", each a "Consolidated Affiliated Entity"** | the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries |
| **"Contractual Arrangements"** | the set of agreements that entered into by each of the WFOEs and the Onshore Holdcos for the purpose of operations of the Restricted Business of the Group in the PRC |
| **"Controlling Shareholder(s)"** | has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interest in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited |
| **"Director(s)"** | the director(s) of the Company |
| **"Group", "our Group", or "the Group"** | the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements) from time to time |
| **"Hong Kong" or "HK"** | the Hong Kong Special Administrative Region of the People's Republic of China |
| **"Hong Kong dollars" or "HK dollars" or "HK$"** | Hong Kong dollars, the lawful currency of Hong Kong |
| **"Latest Practicable Date"** | April 21, 2020, being the latest practicable date prior to the bulk printing and publication of this annual report |
| **"Listing"** | the listing of the Class B Shares on the Main Board of the Stock Exchange |
| **"Listing Date"** | July 9, 2018, the date on which the Shares were listed on the Stock Exchange |

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

# DEFINITIONS

| | |
|---|---|
| **"Prospectus"** | the prospectus of the Company dated June 25, 2018 |
| **"Registered Shareholders"** | the registered shareholders of the Onshore Holdcos |
| **"Report Period"** | the year ended December 31, 2019 |
| **"Reserved Matters"** | those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company's auditors, and (iv) the voluntary liquidation or winding-up of the Company |
| **"Rigo Design"** | Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計(北京)有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity |
| **"RMB" or "Renminbi"** | Renminbi, the lawful currency of mainland China |
| **"SFO"** | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| **"Share Award Scheme"** | the share award scheme adopted by the Company on June 17, 2018 |
| **"Share(s)"** | the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires |
| **"Shareholder(s)"** | holder(s) of the Share(s) |
| **"Stock Exchange"** | The Stock Exchange of Hong Kong Limited |
| **"subsidiary(ies)"** | has the meaning ascribed to it in section 15 of the Companies Ordinance |

| | |
|---|---|
| **"substantial shareholder"** | has the meaning ascribed to it in the Listing Rules |
| **"Tianjin Commercial Factoring"** | Xiaomi Commercial Factoring (Tianjin) Co., Ltd* (小米商業保理(天津)有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary |
| **"United States" or "US"** | the United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| **"US$"** | United States dollars, the lawful currency of the United States |
| **"weighted voting rights"** | has the meaning ascribed to it in the Listing Rules |
| **"WFOEs", each a "WFOE"** | Beijing Baien, Xiaomi Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications and Xiaomi Youpin Technology |
| **"WVR Beneficiary"** | has the meaning ascribed to it in the Listing Rules |
| **"Xiaomi Communications"** | Xiaomi Communications Co., Ltd* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary |
| **"Xiaomi Finance"** | Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary |
| **"Xiaomi Inc."** | Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland china on March 3, 2010 and our Consolidated Affiliated Entity |
| **"Xiaomi Pictures"** | Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity |

# DEFINITIONS

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

小米十周年

XIAOMI 10th ANNIVERSARY

2010-2020