

	Unaudited		
	Nine months ended		
	September 30,	September 30,	Year-over-
	2019	2018	year change
	(RMB in millions, unless specified)		
Revenue	149,369.0	130,494.0	14.5%
Gross profit	20,710.7	16,530.8	25.3%
Operating profit/(loss)	9,063.1	(2,016.8)	N/A
Profit before income tax	9,446.3	10,583.0	-10.7%
Profit for the period	7,666.7	10,085.7	-24.0%
Non-IFRS Measure: Adjusted net profit	9,187.9	6,701.3	37.1%

BUSINESS REVIEW AND OUTLOOK

1. Overall financial performance

In the third quarter of 2019, we achieved RMB53.7 billion in total revenue, representing an increase of 5.5% over the corresponding period in the previous year. Gross profit increased to RMB8.2 billion, representing a year-over-year increase of 25.2%. Adjusted net profit increased by 20.3% year-over-year to RMB3.5 billion. As of September 30, 2019, our total cash resources amounted to RMB56.6 billion.

In the third quarter of 2019, we continued to execute our “Smartphone + AIoT” dual-engine strategy and it yielded positive results. Our user base and the number of devices connected to our platform have continued to grow robustly. In September 2019, monthly active users (“MAU”) of MIUI reached 291.6 million, representing an increase of 29.9% over the corresponding period in the previous year. The number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached 213.2 million as of September 30, 2019, representing a year-over-year growth of 62.0%. Meanwhile, our AI assistant “小愛同學” had 57.9 million MAU in September 2019, representing a year-over-year increase of 68.6%.

Our products were well received by consumers during the Singles’ Day shopping festival in China. The Company’s total payment for sales across all platforms and channels during the Singles’ Day shopping festival this year surpassed RMB6.1 billion in China. The Company’s flagship store on the Tmall platform achieved a total payment for sales of more than RMB2.1 billion, ranking 1st among all brand flagship stores on Tmall for the 7th consecutive year since we first participated in the Singles’ Day shopping festival in 2013.

In October 2019, the Company made its debut on the Fortune Future 50 list, ranking 7th, and was the second highest ranked among all Chinese companies on the list. Furthermore, we ranked 57th on Forbes’ Top 100 Digital Companies List. These respective recognitions reflected the Company’s continuing achievements in the global technology industry.

2. Smartphones

Our smartphones segment recorded RMB32.3 billion in revenue in the third quarter of 2019. Our smartphone sales volume in the third quarter of 2019 reached 32.1 million units. According to Canalys, we ranked 4th globally in terms of smartphone shipments in the third quarter of 2019, with a market share of 9.2%.

Following the introduction of *Mi MIX 3 5G* in Europe in February 2019, we launched our first 5G smartphone in China, *Mi 9 Pro 5G*, in September 2019, marking another milestone in our 5G technology development. *Mi 9 Pro 5G* was well received by the market. In 2020, we expect to launch ten or more 5G smartphone models to capture the 5G smartphone replacement cycle, starting from China. We believe that with our continuous research and development effort in 5G technology and efficient business model, we are well equipped to deliver 5G technology to the mass market, especially when considering that the initial bill of materials for 5G devices will be high. In our view, this presents a great opportunity for us to capture more growth.

In the third quarter of 2019, the Company continued to advance technologically and create breakthroughs. In September 2019, we released our concept smartphone, *Mi MIX Alpha*, a futuristic 5G smartphone featuring the world's first surround display and a screen-to-body ratio of 180.6%, demonstrating the Company's continuous efforts in exploring cutting-edge technology. We introduced *Mi CC9 Pro* in November 2019, which is the first mass-produced smartphone to carry a 108MP penta-camera. It is also capable of up to 10x hybrid zoom and up to 50x digital zoom. *Mi CC9 Pro Premium Edition* achieved a DXOMARK score of 121 for overall camera performance, ranking 1st globally at the time of launch. It also achieved a DXOMARK score of 102 in the video category, the highest among all smartphones at the time of launch. We also released an overseas version of this smartphone, *Mi Note 10*, in Spain in November 2019.

While our Xiaomi brand continues to pioneer advanced technologies and establish itself in the mid- to high-end markets, our Redmi brand continues to offer products with the ultimate price-performance ratio. According to Canalys, *Redmi Note 7* was the best-selling smartphone model among all models made by Chinese companies in terms of global shipments in the third quarter of 2019. We launched *Redmi Note 8* and *Redmi Note 8 Pro* in August 2019, *Redmi 8A* and *Redmi K20 Pro Premium Edition* in September 2019, and *Redmi 8* in October 2019, forming a comprehensive product portfolio covering a wide range of prices.

The average selling price (“ASP”) of our smartphones in mainland China continued to increase in the third quarter of 2019, achieving a year-over-year growth of 4.6%. The ASP of our smartphones in overseas markets recorded a quarter-over-quarter increase of 7.8% and a year-over-year decrease of 4.1% in the third quarter of 2019. The decrease was primarily due to a different product mix compared to the third quarter of 2018.

The gross profit margin of our smartphones segment further increased from 8.1% in the second quarter of 2019 to 9.0% in the third quarter of 2019. In anticipation of the upcoming era of 5G technology, especially in China, we will continue to operate prudently during the transition from 4G to 5G technology, maintain healthy cash flows and inventory levels, and improve profitability. Through these measures, we are preparing to capture the market opportunities that will arise from the widespread adoption of 5G technology in the near future.

3. IoT and lifestyle products

In the third quarter of 2019, revenue of the IoT and lifestyle products segment rose by 44.4% year-over-year to RMB15.6 billion. Our smart TV business maintained its leading edge in both mainland China and overseas markets. In the third quarter of 2019, global shipments of our smart TVs reached 3.1 million units, representing a year-over-year growth of 59.8%. According to All View Cloud (“AVC”), we ranked 1st in terms of TV shipments in mainland China in the third quarter of 2019, with a market share of 16.9%. With our consistent efforts to expand our smart TV business globally, we ranked top five in terms of global TV shipments in the third quarter of 2019 according to AVC. We further expanded our product offering in the high-end segment and launched *Mi TV 5* and *Mi TV 5 Pro* in November 2019. *Mi TV 5 Pro* utilizes a 4K quantum dot display panel that covers a 108% NTSC wide color gamut and comes with HDR10+ support and built-in MEMC technology, enabling a premium picture quality.

We have positioned large home appliances as strategic components of our AIoT strategy. Focused on cutting-edge innovation, superior design and interactive experiences, the Company is dedicated to enhancing the connectivity and compatibility of the whole suite of our smart home appliances. Following the successful launch of our air conditioners and washing machines, we launched *Mi Refrigerator* in October 2019, further expanding our spectrum of products in the large home appliances category.

In October 2019, Redmi introduced the *RedmiBook 14 Ryzen Edition* and Xiaomi introduced *Mi Laptop 15 Pro*, both of which enjoyed widespread popularity.

We continued to enrich our IoT product portfolio. Following the success of our *Mi Band*, we launched our new wearable product, *Mi Watch*, in November 2019. Equipped with an independent eSIM and supported by *MIUI For Watch*, *Mi Watch* is dedicated to bringing our customers the ultimate user experience in both hardware and software. Many of our IoT products have been well received by the market. For example, according to AVC, for the nine months ended September 30, 2019, our fresh air ventilator was the top fresh air ventilator in mainland China in terms of several measurement aspects, including online brand sales, online single-product sales volume and value, while our *Mi Water Purifier* ranked top two in terms of online sales value.

Our AIoT products won multiple domestic and international awards. Our *Mi AI Touchscreen Speaker* won multiple design awards, including the International Design Excellence Award (IDEA), the Red Dot Design Award, and the Good Design Award. Meanwhile, our *Mi Router Mesh* received a 5-star recommendation in the China Mobile 2019 Smart Hardware Quality Report (中國移動 2019 年智能硬件質量報告), and our *Mi Electric Scooter Pro* won the Expert Imaging and Sound Association's Best Product (Electric Vehicle) Award (歐洲影音協會電動出行工具品類最佳產品獎).

4. Internet services

In the third quarter of 2019, our user base continued to expand. The MAU of MIUI increased by 29.9% year-over-year to 291.6 million in September 2019. Our mainland China MAU of MIUI remained flat year-over-year in September 2019 at 112.8 million. The MAU of our smart TVs and *Mi Box* achieved 50.1% year-over-year growth, reaching 23.9 million in September 2019.

Revenue from our internet services segment grew by 12.3% year-over-year to RMB5.3 billion in the third quarter of 2019. Advertising revenue decreased by 9.0% year-over-year to RMB2.9 billion, which was mainly due to pre-installation revenue decreasing to RMB376.6 million from RMB825.4 million over the corresponding period in the previous year. This decrease partly reflected a shift in advertiser preference for non-pre-installation advertising. Excluding pre-installation revenue, advertising revenue grew 6.9% year-over-year in the third quarter of 2019. In the third quarter of 2019, we continued to diversify our advertiser base by expanding into more vertical industries, including financial services and small- and medium-sized enterprises, to develop a more robust and healthier advertising business. Revenue from gaming increased by 26.0% year-over-year to RMB822.3 million in the third quarter of 2019. Our other internet value-added services grew by 78.2% year-over-year to RMB1.6 billion, primarily as a result of the strong growth in revenue of our fintech business and Youpin e-commerce platform.

In the third quarter of 2019, we launched *MIUI 11*, featuring a minimalistic design with efficient office and smart travel application suites. Combining the improvements in efficiency with the new optimized modern user interface design, *MIUI 11* provides an all-rounded upgrade to our users.

With our continuous efforts to diversify our internet services business, 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 87.8% year-over-year and accounted for 37.2% of our total internet services revenue in the third quarter of 2019.

In the third quarter of 2019, the gross merchandise volume of our Youpin e-commerce platform maintained a strong year-over-year growth primarily due to the expansion of our product categories on the platform and the continued growth and diversification of our user base.

In the third quarter of 2019, the revenue from our fintech business increased by 91.2% year-over-year to RMB1.0 billion. The increase was mainly due to the strong growth achieved in our consumer loan business.

In the third quarter of 2019, our revenue from TV internet services continued to grow, driven by the increase in both subscription revenue and advertising revenue. In September 2019, the MAU of our smart TVs and *Mi Box* reached 23.9 million, representing a year-over-year increase of 50.1%. As of September 30, 2019, we had more than 3.2 million paid subscribers, representing a year-over-year growth of 68.8%.

With the expansion of our overseas smartphones business, our overseas internet services revenue increased significantly in the third quarter of 2019. Moreover, we continued to strengthen our internet service offerings and monetization capabilities in key overseas markets where we have a sizable user base. For example, in India, our *Mi Browser*, *Mi Music*, *Mi Video* and *GetApps* (overseas version of *Mi App Store*) ranked in the top two within their respective categories on our smartphones in terms of daily active users on September 30, 2019. In addition, we continued to improve our overseas advertising sales capabilities, resulting in an increasingly diversified advertiser base.

5. Overseas markets

The third quarter of 2019 was another solid quarter for us in the overseas markets. Our revenue from the overseas markets grew 17.2% year-over-year to RMB26.1 billion in the third quarter of 2019, accounting for 48.7% of our total revenue.

According to Canalys, in the third quarter of 2019, we ranked top five in over 40 countries and regions in terms of smartphone shipments. According to IDC Consulting (Beijing) Ltd. (“**IDC**”), our smartphones ranked 1st in India in terms of shipments for nine consecutive quarters. According to Canalys, our market share in Western Europe in terms of smartphone shipments ranked 4th in the third quarter of 2019 with a year-over-year shipments growth of 90.9%. Moreover, according to Canalys, we ranked 1st in open market channels and 2nd in the overall market in Spain in terms of smartphone shipments in the third quarter of 2019, with an overall market share of 22.9%, representing a year-over-year increase in shipments of 63.7%.

6. Strategic update

AIoT

In the third quarter of 2019, we continued to execute our “Smartphone + AIoT” dual-engine strategy, and maintained our leading position. As of September 30, 2019, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached approximately 213.2 million, representing a year-over-year increase of 62.0%. The number of users who have five or more devices connected to the Company’s IoT platform (excluding smartphones and laptops) increased to 3.5 million, representing a year-over-year increase of 78.7%. In September 2019, our AI assistant “小愛同學” had 57.9 million MAU with a year-over-year increase of 68.6%, and continued to be one of the most used AI voice interactive platforms in mainland China. Meanwhile, our *Mi Home* app had 32.1 million MAU in September 2019, with 63.0% of these active users being non-Xiaomi smartphone users.

We continued to strengthen the connectivity across devices on our AIoT platform. Our smartphones, smart TVs, AI speakers, and smartwatches can all act as controlling hubs for our AIoT platform. Empowered by our AI technologies, our users can interact with our IoT devices more intuitively. We will continue to invest to create better use cases and strengthen the interconnectivity of devices on our AIoT platform.

On August 29, 2019, the Ministry of Science and Technology of the People’s Republic of China awarded the Company with the title “National Open Innovation Platform for Next Generation Artificial Intelligence” (國家新一代人工智能開放創新平台) for its achievements in the smart home category, which is notable recognition of our AI and IoT research and development capabilities.

Investments

As of September 30, 2019, we had invested in more than 280 companies with an aggregate book value of RMB28.7 billion, representing a year-over-year growth of 16.8%. In the third quarter of 2019, we generated net gains on disposal of investments (after tax) of RMB392.3 million. We believe our investments have not only allowed us to establish close partnerships with the investee companies, but have also provided us with recurring investment income.

MANAGEMENT DISCUSSION AND ANALYSIS

Third Quarter of 2019 Compared to Third Quarter of 2018

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

	Unaudited	
	Three months ended	
	September 30,	September 30,
	2019	2018
	(RMB in millions)	
Revenue	53,661.0	50,846.2
Cost of sales	(45,424.6)	(44,268.7)
Gross profit	8,236.4	6,577.5
Selling and marketing expenses	(2,537.0)	(2,186.9)
Administrative expenses	(843.8)	(583.3)
Research and development expenses	(2,033.1)	(1,534.4)
Fair value changes on investments measured at fair value through profit or loss	32.5	65.3
Share of losses of investments accounted for using the equity method	(240.6)	(184.4)
Other income	448.4	259.1
Other gains/(losses), net	49.9	(202.3)
Operating profit	3,112.7	2,210.6
Finance income, net	182.1	100.1
Fair value changes of convertible redeemable preferred shares	–	52.9
Profit before income tax	3,294.8	2,363.6
Income tax (expenses)/credit	(775.4)	116.9
Profit for the period	2,519.4	2,480.5
Non-IFRS Measure: Adjusted net profit	3,472.1	2,885.2

Revenue

Revenue increased by 5.5% to RMB53.7 billion in the third quarter of 2019 on a year-over-year basis. The following table sets forth our revenue by line of business in the third quarter of 2019 and the third quarter of 2018.

	Unaudited			
	Three months ended		September 30, 2018	
	September 30, 2019	September 30, 2018		
	Amount	Amount	% of total revenue	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	32,268.4	34,982.5	60.1%	68.8%
IoT and lifestyle products	15,606.3	10,804.8	29.1%	21.3%
Internet services	5,309.0	4,728.7	9.9%	9.3%
Others	477.3	330.2	0.9%	0.6%
Total revenue	<u>53,661.0</u>	<u>50,846.2</u>	<u>100.0%</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment decreased by 7.8% from RMB35.0 billion in the third quarter of 2018 to RMB32.3 billion in the third quarter of 2019. We continued to operate prudently during the transition period from 4G to 5G technology in 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 approximately 32.1 million smartphone units in the third quarter of 2019, compared to approximately 33.3 million units in the third quarter of 2018. The ASP of our smartphones was RMB1,006.5 per unit in the third quarter of 2019, compared with RMB1,052.0 per unit in the third quarter of 2018. The decrease in ASP was primarily due to a different product mix compared to the third quarter of 2018.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 44.4% from RMB10.8 billion in the third quarter of 2018 to RMB15.6 billion in the third quarter of 2019. The increase in revenue was primarily due to the strong growth in demand of our smart TVs, home appliances and other IoT products such as *Mi Band*, as well as the network effects arising from our expanding AIoT platform. Revenue from smart TVs and laptops increased by 36.5% from RMB4.2 billion in the third quarter of 2018 to RMB5.8 billion in the third quarter of 2019.

Internet services

Revenue from our internet services segment increased by 12.3% from RMB4.7 billion in the third quarter of 2018 to RMB5.3 billion in the third quarter of 2019, primarily due to the growth in our other internet value-added services. Our MIUI MAU increased by 29.9% from 224.4 million in September 2018 to 291.6 million in September 2019.

Others

Other revenue increased by 44.5% from RMB330.2 million in the third quarter of 2018 to RMB477.3 million in the third quarter of 2019, primarily due to the increase in revenue from out-of-warranty services as a result of greater hardware sales as well as increase in revenue from sale of materials.

Cost of Sales

Our cost of sales increased by 2.6% from RMB44.3 billion in the third quarter of 2018 to RMB45.4 billion in the third quarter of 2019. The following table sets forth the comparative figures for the third quarter of 2019 and the third quarter of 2018:

	Unaudited			
	September 30, 2019		September 30, 2018	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	29,375.2	54.7%	32,847.4	64.6%
IoT and lifestyle products	13,608.0	25.4%	9,672.8	19.0%
Internet services	1,967.3	3.7%	1,494.9	2.9%
Others	474.1	0.9%	253.6	0.6%
Total cost of sales	<u>45,424.6</u>	<u>84.7%</u>	<u>44,268.7</u>	<u>87.1%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 10.6% from RMB32.8 billion in the third quarter of 2018 to RMB29.4 billion in the third quarter of 2019, primarily due to the decreased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 40.7% from RMB9.7 billion in the third quarter of 2018 to RMB13.6 billion in the third 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 31.6% from RMB1.5 billion in the third quarter of 2018 to RMB2.0 billion in the third quarter of 2019, primarily due to the increase in sales of other internet value-added services.

Others

Cost of sales related to our others segment increased by 86.9% from RMB253.6 million in the third quarter of 2018 to RMB474.1 million in the third quarter of 2019, 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 25.2% from RMB6.6 billion in the third quarter of 2018 to RMB8.2 billion in the third quarter of 2019. The gross profit margin from our smartphones segment increased from 6.1% in the third quarter of 2018 to 9.0% in the third quarter of 2019, 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 China.

The gross profit margin from our IoT and lifestyle products segment increased from 10.5% in the third quarter of 2018 to 12.8% in the third quarter of 2019, mainly due to the increased gross profit margin from our smart TVs and laptops business. The gross profit margin from our internet services segment decreased from 68.4% in the third quarter of 2018 to 62.9% in the third quarter of 2019, mainly because of higher revenue contribution from other internet value-added services which have lower gross profit margins than advertising, and the pilot test of our advertising network business which has a lower gross profit margin.

As a result of the foregoing, our gross profit margin increased from 12.9% in the third quarter of 2018 to 15.3% in the third quarter of 2019.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 16.0% from RMB2.2 billion in the third quarter of 2018 to RMB2.5 billion in the third quarter of 2019, primarily due to the increase in packaging and transportation expenses and promotion and advertising expenses. Packaging and transportation expenses increased primarily due to our expansion of overseas business. Promotion and advertising expenses increased 13.6% from RMB748.4 million in the third quarter of 2018 to RMB849.9 million in the third quarter of 2019, primarily due to our enhanced marketing efforts for the launch of our smartphone models.

Administrative Expenses

Our administrative expenses increased by 44.7% from RMB583.3 million in the third quarter of 2018 to RMB843.8 million in the third quarter of 2019, primarily due to the increase in compensation for 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 32.5% from RMB1.5 billion in the third quarter of 2018 to RMB2.0 billion in the third quarter of 2019, primarily due to the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 50.2% from a gain of RMB65.3 million in the third quarter of 2018 to a gain of RMB32.5 million in the third quarter of 2019, primarily due to less fair value gains of equity and preferred share investment in the third 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 30.5% from net losses of RMB184.4 million in the third quarter of 2018 to net losses of RMB240.6 million in the third quarter of 2019, primarily due to the increase in share of loss of RMB291.7 million of iQIYI, Inc (NASDAQ ticker: IQ).

Other Income

Our other income increased by 73.1% from RMB259.1 million in the third quarter of 2018 to RMB448.4 million in the third quarter of 2019, primarily due to the increase in dividend income received from our investee companies.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from net losses of RMB202.3 million in the third quarter of 2018 to net gains of RMB49.9 million in the third quarter of 2019, primarily due to the recognition of foreign exchange gains for the third quarter of 2019, compared to foreign exchange losses for the third quarter of 2018.

Finance Income, Net

Our net finance income increased by 82.0% from RMB100.1 million in the third quarter of 2018 to RMB182.1 million in the third quarter of 2019, 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 in the third quarter of 2019, compared to a gain of RMB52.9 million in the third quarter of 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 (“**Class B Shares**”) and thus we will no longer incur fair value changes of convertible redeemable preferred shares after the fourth quarter of 2018.

Income Tax (Expenses)/Credit

Our income tax (expenses)/credit changed from an income tax credit of RMB116.9 million in the third quarter of 2018 to an income tax expense of RMB775.4 million in the third quarter of 2019. The income tax credit in the third quarter of 2018 was 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%.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.5 billion and a profit of RMB2.5 billion in the third quarter of 2018 and the third quarter of 2019, respectively.

Third Quarter of 2019 Compared to Second Quarter of 2019

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

	Unaudited	
	Three months ended	
	September 30,	June 30,
	2019	2019
	(RMB in millions)	
Revenue	53,661.0	51,951.1
Cost of sales	(45,424.6)	(44,692.4)
Gross profit	8,236.4	7,258.7
Selling and marketing expenses	(2,537.0)	(2,295.3)
Administrative expenses	(843.8)	(723.5)
Research and development expenses	(2,033.1)	(1,556.1)
Fair value changes on investments measured at fair value through profit or loss	32.5	(670.7)
Share of losses of investments accounted for using the equity method	(240.6)	(12.1)
Other income	448.4	406.4
Other gains/(losses), net	49.9	(71.3)
Operating profit	3,112.7	2,336.1
Finance income, net	182.1	98.2
Profit before income tax	3,294.8	2,434.3
Income tax expenses	(775.4)	(478.7)
Profit for the period	2,519.4	1,955.6
Non-IFRS Measure: Adjusted net profit	3,472.1	3,635.1

Revenue

Revenue increased by 3.3% to RMB53.7 billion in the third quarter of 2019 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the third quarter of 2019 and the second quarter of 2019.

	Unaudited			
	Three months ended		June 30, 2019	
	September 30, 2019		June 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	32,268.4	60.1%	32,021.0	61.6%
IoT and lifestyle products	15,606.3	29.1%	14,944.7	28.8%
Internet services	5,309.0	9.9%	4,580.2	8.8%
Others	477.3	0.9%	405.2	0.8%
Total revenue	<u>53,661.0</u>	<u>100.0%</u>	<u>51,951.1</u>	<u>100.0%</u>

Smartphones

Revenue from our smartphones segment increased by 0.8% from RMB32.0 billion in the second quarter of 2019 to RMB32.3 billion in the third quarter of 2019. We sold approximately 32.1 million smartphone units in the third quarter of 2019, compared to approximately 32.1 million units in the second quarter of 2019. The ASP of our smartphones was RMB1,006.5 per unit in the third quarter of 2019, compared with RMB998.7 per unit in the second quarter of 2019.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 4.4% from RMB14.9 billion in the second quarter of 2019 to RMB15.6 billion in the third quarter of 2019, primarily due to the growth in demand of our smart TVs, laptops and other IoT products such as *Mi Band*. Revenue from smart TVs and laptops, increased by 5.8% from RMB5.5 billion in the second quarter of 2019 to RMB5.8 billion in the third quarter of 2019.

Internet services

Revenue from our internet services segment increased by 15.9% from RMB4.6 billion in the second quarter of 2019 to RMB5.3 billion in the third quarter of 2019, primarily due to the growth in our advertising business. Our MIUI MAU increased by 4.6% from 278.7 million in June 2019 to 291.6 million in September 2019.

Others

Other revenue increased by 17.8% from RMB405.2 million in the second quarter of 2019 to RMB477.3 million in the third quarter of 2019, primarily due to the increase in revenue from sale of materials.

Cost of Sales

Our cost of sales increased by 1.6% from RMB44.7 billion in the second quarter of 2019 to RMB45.4 billion in the third quarter of 2019. The following table sets forth our cost of sales by line of business in the third quarter of 2019 and the second quarter of 2019.

	Unaudited			
	September 30, 2019		June 30, 2019	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	29,375.2	54.7%	29,431.5	56.7%
IoT and lifestyle products	13,608.0	25.4%	13,272.8	25.5%
Internet services	1,967.3	3.7%	1,574.8	3.0%
Others	474.1	0.9%	413.3	0.8%
Total cost of sales	<u>45,424.6</u>	<u>84.7%</u>	<u>44,692.4</u>	<u>86.0%</u>

Smartphones

Cost of sales related to our smartphones segment decreased by 0.2% from RMB29.4 billion in the second quarter of 2019 to RMB29.4 billion in the third quarter of 2019.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 2.5% from RMB13.3 billion in the second quarter of 2019 to RMB13.6 billion in the third quarter of 2019, primarily due to the increased sales of our smart TVs, laptops and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 24.9% from RMB1.6 billion in the second quarter of 2019 to RMB2.0 billion in the third quarter of 2019, primarily due to the growth of our advertising and fintech business.

Others

Cost of sales related to our others segment increased by 14.7% from RMB413.3 million in the second quarter of 2019 to RMB474.1 million in the third quarter of 2019, primarily due to the increased sales from sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 13.5% from RMB7.3 billion in the second quarter of 2019 to RMB8.2 billion in the third quarter of 2019. The gross profit margin from our smartphones segment increased from 8.1% in the second quarter of 2019 to 9.0% in the third quarter of 2019, mainly due to our continued prudent operation during the transition period from 4G to 5G technology in China.

The gross profit margin from our IoT and lifestyle products segment increased from 11.2% in the second quarter of 2019 to 12.8% in the third quarter of 2019, due to higher revenue contribution from products with higher gross profit margin. The gross profit margin from our internet services segment decreased from 65.6% in the second quarter of 2019 to 62.9% in the third quarter of 2019, mainly because of the decrease of gross profit margin from our fintech business and the pilot test of our advertising network business which has a lower gross profit margin.

As a result of the foregoing, our gross profit margin increased from 14.0% in the second quarter of 2019 to 15.3% in the third quarter of 2019.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 10.5% from RMB2.3 billion in the second quarter of 2019 to RMB2.5 billion in the third quarter of 2019, primarily due to the increase in promotion and advertising expenses. The promotion and advertising expenses increased 24.8% from RMB681.0 million in the second quarter of 2019 to RMB849.9 million in the third quarter of 2019, primarily due to increased marketing efforts for the launch of our smartphone models.

Administrative Expenses

Our administrative expenses increased by 16.6% from RMB723.5 million in the second quarter of 2019 to RMB843.8 million in the third quarter of 2019, primarily due to the increase in compensation for 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 30.7% from RMB1.6 billion in the second quarter of 2019 to RMB2.0 billion in the third quarter of 2019, primarily due to the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss changed from a loss of RMB670.7 million in the second quarter of 2019 to a gain of RMB32.5 million in the third quarter of 2019, primarily due to fair value gains of the equity and preferred share investments in the third 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 from net losses of RMB12.1 million in the second quarter of 2019 to net losses of RMB240.6 million in the third quarter of 2019, primarily due to the increase in share of loss of RMB291.7 million of iQIYI, Inc (NASDAQ ticker: IQ).

Other Income

Our other income increased by 10.3% from RMB406.4 million in the second quarter of 2019 to RMB448.4 million in the third quarter of 2019, primarily due to the increase in dividend income received from our investee companies and the increase of investment income from short-term investments measured at fair value through profit or loss.

Other Gains/(Losses), Net

Our other net gains/(losses) changed from net losses of RMB71.3 million in the second quarter of 2019 to net gains RMB49.9 million in the third quarter of 2019, primarily due to the recognition of foreign exchange gains in the third quarter of 2019, compared to foreign exchange losses in the second quarter of 2019.

Finance Income, Net

Our net finance income increased by 85.4% from RMB98.2 million in the second quarter of 2019 to RMB182.1 million in the third quarter of 2019, primarily due to the increase in our interest income and the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased from RMB478.7 million in the second quarter of 2019 to RMB775.4 million in the third quarter of 2019, primarily due to the utilization of deferred tax assets as a result of the growth of our overseas business in the third quarter of 2019.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.0 billion and a profit of RMB2.5 billion in the second and third 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 Adjusted Net Profit as an additional financial measure. We define non-IFRS adjusted net profit (“**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, and (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 operation, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance, such as certain non-cash items and the impact of certain investment transactions. We also believe that non-IFRS measures are appropriate for evaluating the Group’s operating performance. However, the use of this particular non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

The following tables set forth reconciliations of the Group's non-IFRS measures for the third quarter of 2019, the second quarter of 2019, the third quarter of 2018, and the first nine months of 2019 and 2018, respectively, to the nearest measures prepared in accordance with IFRS.

In the third quarter of 2019, the net fair value changes on investments of RMB450.7 million in the non-IFRS adjustments include the pre-tax net gains on disposal of investments of RMB483.3 million (RMB392.3 million post-tax), and are partially offset by fair value gains on investments measured at fair value through profit or loss of RMB32.5 million (before tax).

	Unaudited Three Months Ended September 30, 2019 Adjustments							Non-IFRS
	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⁾	
	(RMB in thousand, unless specified)							
Profit for the period	2,519,429	—	586,275	450,748	79	6,708	(91,133)	3,472,106
Net margin	4.7%							6.5%

	Unaudited Three Months Ended June 30, 2019 Adjustments							Non-IFRS
	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⁾	
	(RMB in thousand, unless specified)							
Profit for the period	1,955,558	—	387,545	1,421,586	79	53,700	(183,355)	3,635,113
Net margin	3.8%							7.0%

	Unaudited Three Months Ended September 30, 2018 Adjustments							Non-IFRS
	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⁾	
	(RMB in thousand, unless specified)							
Profit for the period	2,480,484	(52,934)	701,813	(58,677)	3,059	—	(188,525)	2,885,220
Net margin	4.9%							5.7%

Unaudited
 Nine 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	7,666,731	—	1,604,572	71,651	1,625	60,408	(217,097)	9,187,890
Net margin	5.1%							6.2%

Unaudited
 Nine Months Ended September 30, 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	10,085,720	(12,514,279)	11,717,371	(2,315,953)	4,447	—	(275,962)	6,701,344
Net margin	7.7%							5.1%

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.

Liquidity and Financial Resources

In addition to 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 RMB35.5 billion and RMB34.9 billion as of September 30, 2019 and June 30, 2019, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss and long-term bank deposits. As of September 30, 2019, the aggregate amount of cash resources of the Group is RMB56.6 billion, an increase of 10.2% from RMB51.3 billion as of June 30, 2019.

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	September 30,	June 30,
	2019	2019
	(in thousands of RMB)	
Net cash generated from operating activities ⁽¹⁾	2,992,577	11,033,207
Net cash used in investing activities	(3,738,308)	(5,658,342)
Net cash generated from financing activities ⁽¹⁾	684,969	2,377,695
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(60,762)	7,752,560
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	34,921,028	26,473,131
Effects of exchange rate changes on cash and cash equivalents	678,898	695,337
	<hr/>	<hr/>
Cash and cash equivalents at end of period	35,539,164	34,921,028
	<hr/> <hr/>	<hr/> <hr/>

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 decrease in trade payables resulting from the finance factoring business; (3) the increase in restricted cash resulting from the internet finance business, the net cash generated from operating activities was RMB3.6 billion in the third quarter of 2019 and the net cash generated from operating activities was RMB13.7 billion in the second quarter of 2019, respectively. Excluding the change of borrowings for the internet finance business, the net cash used in financing activities was RMB19.2 million in the third quarter of 2019 and RMB762.0 million in the second quarter of 2019, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Generated From Operating Activities

Net cash generated from our 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 third quarter of 2019, net cash generated from our operating activities amounted to RMB3.0 billion, representing cash generated from operations of RMB3.5 billion minus income tax paid of RMB0.5 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB3.3 billion, adjusted by an increase in trade payables of RMB1.3 billion and an increase in advance from customers of RMB1.8 billion, partially offset by an increase in trade receivables of RMB2.8 billion and an increase in loan and interest receivables of RMB1.0 billion.

Net Cash Used In Investing Activities

In the third quarter of 2019, our net cash used in investing activities was RMB3.7 billion, which was primarily attributed to the net cash used in the net changes of short-term investments measured at fair value through profit or loss of RMB1.6 billion and the net cash used in the net changes of short-term bank deposits of RMB1.9 billion.

Net Cash Generated from Financing Activities

In the third quarter of 2019, our net cash generated from financing activities was RMB0.7 billion, which was primarily attributable to the net cash generated from the net changes of borrowings of RMB1.6 billion, partially offset by the payments of shares repurchase of RMB0.8 billion and payment of lease liabilities of RMB0.2 billion.

Borrowings

As of June 30, 2019 and September 30, 2019, we had total borrowings of RMB13.8 billion and RMB15.5 billion, respectively.

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

	Unaudited	
	Three months ended	
	September 30, 2019	June 30, 2019
	(in thousands of RMB)	
Capital expenditures	843,968	524,725
Placement of long-term investments ⁽¹⁾	<u>380,659</u>	<u>1,281,536</u>
Total	<u><u>1,224,627</u></u>	<u><u>1,806,261</u></u>

Note:

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

Our capital expenditure 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 September 30, 2019, our book value of office and other real estate amounted RMB10.9 billion.

Future Plans for Material Investments and Capital Assets

As of September 30, 2019, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the nine months ended September 30, 2019, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of September 30, 2019, we had 17,965 full-time employees, 16,634 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key global markets. As of September 30, 2019, our research and development personnel, totaling 8,700 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of September 30, 2019, 16,223 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, in the third quarter of 2019 were RMB2,121.1 million, representing an increase of 19.2% from the second quarter of 2019 of RMB1,779.2 million.

Foreign Exchange Risk

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

Pledge of Assets

As of September 30, 2019, we pledged a restricted deposit of RMB1,526.9 million, compared with as of June 30, 2019, which was RMB649.7 million.

Contingent Liabilities

As of September 30, 2019 and June 30, 2019, we did not have any material contingent liabilities.

CONDENSED FINANCIAL INFORMATION

Consolidated Income Statement

For the three months and nine months ended September 30, 2019

	Note	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	3	53,661,006	50,846,214	149,368,958	130,494,049
Cost of sales	4	<u>(45,424,572)</u>	<u>(44,268,656)</u>	<u>(128,658,228)</u>	<u>(113,963,252)</u>
Gross profit		8,236,434	6,577,558	20,710,730	16,530,797
Selling and marketing expenses	4	(2,537,037)	(2,186,907)	(6,677,015)	(5,665,445)
Administrative expenses	4	(843,760)	(583,250)	(2,199,295)	(11,505,489)
Research and development expenses	4	(2,033,115)	(1,534,441)	(5,239,839)	(4,001,835)
Fair value changes on investments measured at fair value through profit or loss	8	32,533	65,306	1,994,595	2,355,084
Share of losses of investments accounted for using the equity method	5	(240,560)	(184,396)	(398,032)	(296,579)
Other income		448,379	259,080	914,979	624,621
Other gains/(losses), net		<u>49,906</u>	<u>(202,327)</u>	<u>(43,060)</u>	<u>(58,003)</u>
Operating profit/(loss)		3,112,780	2,210,623	9,063,063	(2,016,849)
Finance income, net		182,068	100,050	383,243	85,554
Fair value changes of convertible redeemable preferred shares	12	—	52,934	—	12,514,279
Profit before income tax		3,294,848	2,363,607	9,446,306	10,582,984
Income tax (expenses)/credit	6	<u>(775,419)</u>	<u>116,877</u>	<u>(1,779,575)</u>	<u>(497,264)</u>
Profit for the period		2,519,429	2,480,484	7,666,731	10,085,720
Profit attributable to:					
— Owners of the Company		2,525,063	2,498,788	7,602,978	10,144,983
— Non-controlling interests		<u>(5,634)</u>	<u>(18,304)</u>	<u>63,753</u>	<u>(59,263)</u>
		<u>2,519,429</u>	<u>2,480,484</u>	<u>7,666,731</u>	<u>10,085,720</u>
Earnings/(loss) per share (expressed in RMB per share)	7				
Basic		<u>0.106</u>	0.117	<u>0.320</u>	0.731
Diluted		<u>0.102</u>	0.100	<u>0.308</u>	(0.102)

Consolidated Statement of Comprehensive Income

For the three months and nine months ended September 30, 2019

	Note	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Profit for the period		2,519,429	2,480,484	7,666,731	10,085,720
Other comprehensive income/(loss):					
<i>Items that may be reclassified</i>					
<i>subsequently to profit or loss</i>					
Share of other comprehensive income of investments accounted for using the equity method	5	59,914	53,461	45,384	164,614
Currency translation differences		(18,935)	(229,382)	14,701	(628,626)
<i>Item that will not be reclassified</i>					
<i>subsequently to profit or loss</i>					
Currency translation differences		869,667	452,912	951,276	(1,027,867)
Other comprehensive income/(loss) for the period, net of tax		910,646	276,991	1,011,361	(1,491,879)
Total comprehensive income for the period		3,430,075	2,757,475	8,678,092	8,593,841
Attributable to:					
— Owners of the Company		3,425,235	2,768,393	8,601,235	8,643,851
— Non-controlling interests		4,840	(10,918)	76,857	(50,010)
		3,430,075	2,757,475	8,678,092	8,593,841

Consolidated Balance Sheet
As of September 30, 2019

	Note	Unaudited As of September 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Assets			
Non-current assets			
Land use rights		—	3,402,968
Property and equipment		7,157,506	5,068,053
Intangible assets		1,696,073	2,061,192
Investments accounted for using the equity method	5	9,503,927	8,639,238
Long-term investments measured at fair value through profit or loss	8	19,198,085	18,636,208
Deferred income tax assets		1,216,489	1,312,245
Other non-current assets		4,955,034	95,485
		<u>43,727,114</u>	<u>39,215,389</u>
Current assets			
Inventories	10	26,241,171	29,480,685
Trade receivables	9	9,795,520	5,598,443
Loan receivables		12,256,169	10,293,645
Prepayments and other receivables		20,089,650	20,914,946
Short-term investments measured at fair value through profit or loss	8	14,702,051	6,648,526
Short-term bank deposits		4,314,497	1,365,991
Restricted cash		1,526,943	1,480,178
Cash and cash equivalents		35,539,164	30,230,147
		<u>124,465,165</u>	<u>106,012,561</u>
Total assets		<u><u>168,192,279</u></u>	<u><u>145,227,950</u></u>

	Note	Unaudited As of September 30, 2019 RMB'000	Audited As of December 31, 2018 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		385	377
Reserves		<u>79,941,632</u>	<u>71,322,608</u>
		<u>79,942,017</u>	<u>71,322,985</u>
Non-controlling interests		<u>159,483</u>	<u>(72,856)</u>
Total equity		<u><u>80,101,500</u></u>	<u><u>71,250,129</u></u>
Liabilities			
Non-current liabilities			
Borrowings	11	5,332,565	7,856,143
Deferred income tax liabilities		515,307	777,645
Warranty provision		897,138	559,016
Other non-current liabilities	13	<u>3,573,418</u>	<u>2,844,859</u>
		<u>10,318,428</u>	<u>12,037,663</u>
Current liabilities			
Trade payables	14	49,549,418	46,287,271
Other payables and accruals		9,031,595	6,312,770
Advance from customers		6,508,952	4,479,522
Borrowings	11	10,202,977	3,075,194
Income tax liabilities		757,811	661,816
Warranty provision		<u>1,721,598</u>	<u>1,123,585</u>
		<u>77,772,351</u>	<u>61,940,158</u>
Total liabilities		<u><u>88,090,779</u></u>	<u><u>73,977,821</u></u>
Total equity and liabilities		<u><u>168,192,279</u></u>	<u><u>145,227,950</u></u>

Condensed Consolidated Statement of Cash Flows
For the nine months ended September 30, 2019

	Unaudited	
	Nine months ended	
	September 30,	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	13,908,001	4,786,246
Net cash used in investing activities	(11,768,862)	(6,053,909)
Net cash generated from financing activities	2,576,968	24,195,630
	<hr/>	<hr/>
Net increase in cash and cash equivalents	4,716,107	22,927,967
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the period	30,230,147	11,563,282
Effects of exchange rate changes on cash and cash equivalents	592,910	717,544
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	35,539,164	35,208,793
	<hr/> <hr/>	<hr/> <hr/>

Notes:

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, Umland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries, including controlled structured entities (together, the “**Group**”) are principally engaged in development and sales of smartphones, internet of things (“IoT”) and lifestyle products, provision of internet services and investments holding in the People’s Republic of China and other countries or regions.

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of this financial information.

The condensed consolidated interim financial information comprises the consolidated balance sheet as of September 30, 2019, the consolidated income statement and the consolidated statement of comprehensive income for the three-month and nine-month periods then ended, the consolidated statement of changes in equity and the consolidated statement of cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**Interim Financial Information**”). The Interim Financial Information is presented in Renminbi (“**RMB**”), unless otherwise stated.

The Interim Financial Information was approved by the board of directors of the Company on November 27, 2019.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

2 Basis of preparation

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

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2018 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2018 annual report of the Company dated March 19, 2019 (the “**2018 Financial Statements**”).

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2018, as described in the 2018 Financial Statements, except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Group

The following new and amended standards, and annual improvements are mandatory for the first time for the Group's financial year beginning on January 1, 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 below.

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

At 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.

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 includes 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. As of September 30, 2019, the Group recognized a right-of-use asset of RMB4,320,277,000 in other non-current assets, and lease liabilities of RMB412,567,000 and RMB570,227,000 in other payables and accruals and other non-current liabilities, respectively.

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;
- the accounting for certain operating leases with a remaining lease term of less than 12 months as of January 1, 2019 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.

Upon adoption of IFRS 16, principal elements of lease payments and related interest portion have been classified within financing activities.

3 Segment information

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

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

The CODM assesses the performance of the operating segments mainly based on segment revenue and gross profit of each operating segment. There were no material inter-segment sales during the three months and nine months ended September 30, 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.

The segment results for the three months and nine months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30, 2019				
	Smartphones	IoT and	Internet	Others	Total
	RMB'000	lifestyle	services	RMB'000	RMB'000
		products	RMB'000	RMB'000	RMB'000
		RMB'000			
(Unaudited)					
Segment revenues	32,268,379	15,606,310	5,309,025	477,292	53,661,006
Cost of sales	(29,375,158)	(13,608,046)	(1,967,285)	(474,083)	(45,424,572)
Gross profit	2,893,221	1,998,264	3,341,740	3,209	8,236,434
	Three months ended September 30, 2018				
	Smartphones	IoT and	Internet	Others	Total
	RMB'000	lifestyle	services	RMB'000	RMB'000
		products	RMB'000	RMB'000	RMB'000
		RMB'000			
(Unaudited)					
Segment revenues	34,982,470	10,804,839	4,728,698	330,207	50,846,214
Cost of sales	(32,847,406)	(9,672,751)	(1,494,945)	(253,554)	(44,268,656)
Gross profit	2,135,064	1,132,088	3,233,753	76,653	6,577,558

	Nine months ended September 30, 2019				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	91,298,070	42,593,957	14,146,516	1,330,415	149,368,958
Cost of sales	(84,930,288)	(37,475,124)	(4,929,716)	(1,323,100)	(128,658,228)
Gross profit	6,367,782	5,118,833	9,216,800	7,315	20,710,730

	Nine months ended September 30, 2018				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	88,723,082	28,880,203	11,918,268	972,496	130,494,049
Cost of sales	(83,199,653)	(25,947,245)	(4,187,357)	(628,997)	(113,963,252)
Gross profit	5,523,429	2,932,958	7,730,911	343,499	16,530,797

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the three months and nine months ended September 30, 2019 and 2018, the geographical information on the total revenues is as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Mainland China	27,519,935	51.3	28,547,830	56.1	84,580,522	56.6	79,313,040	60.8
Rest of the world (Note)	26,141,071	48.7	22,298,384	43.9	64,788,436	43.4	51,181,009	39.2
	<u>53,661,006</u>		<u>50,846,214</u>		<u>149,368,958</u>		<u>130,494,049</u>	

Note: Revenues outside mainland China are mainly from India, Indonesia and Western Europe.

6 Income tax (expenses)/credit

The income tax (expenses)/credit of the Group during all the periods presented are analyzed as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax	(674,547)	(551,065)	(1,946,157)	(1,499,275)
Deferred income tax	(100,872)	667,942	166,582	1,002,011
Income tax (expenses)/credit	(775,419)	116,877	(1,779,575)	(497,264)

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

7 Earnings/(loss) per share

(a) Basic

Basic earnings per share for the three months and nine months ended September 30, 2019 and 2018 are calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the periods.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	2,525,063	2,498,788	7,602,978	10,144,983
Weighted average number of ordinary shares in issue (thousand shares)	23,785,863	21,327,777	23,748,555	13,875,393
Basic earnings per share (expressed in RMB per share)	0.106	0.117	0.320	0.731

(b) *Diluted*

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

For the three months and nine months ended September 30, 2019, the share options and RSUs granted by the Company's subsidiaries and associates had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted earnings per share.

For the three months and nine months ended September 30, 2018, diluted earnings/(loss) per share was calculated by considering that the impact of share options of Xiaomi Finance Inc., a wholly owned subsidiary of the Company ("Xiaomi Finance") granted to Lei Jun were not dilutive, as Xiaomi Finance was in loss position for the three months and nine months ended September 30, 2018.

	Three months ended		Nine months ended	
	September 30, 2019	2018	September 30, 2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	2,525,063	2,498,788	7,602,978	10,144,983
Less: Fair value gain of convertible redeemable preferred shares ("Preferred Shares")	—	(52,934)	—	(12,514,279)
Net profit/(loss) used to determine diluted earnings/(loss) per share	2,525,063	2,445,854	7,602,978	(2,369,296)
Weighted average number of ordinary shares in issue (thousand shares)	23,785,863	21,327,777	23,748,555	13,875,393
Adjustments for RSUs and share options granted to employees (thousand shares)	861,577	1,999,493	947,893	1,998,010
Adjustments for Preferred Shares (thousand shares)	—	1,027,655	—	7,311,118
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (thousand shares)	24,647,440	24,354,925	24,696,448	23,184,521
Diluted earnings/(loss) per share (expressed in RMB per share)	0.102	0.100	0.308	(0.102)

8 Investments

	As of September 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Current assets		
Short-term investments measured at fair value through profit or loss	<u>14,702,051</u>	<u>6,648,526</u>
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	7,785,726	7,629,929
— Preferred shares investments	<u>11,412,359</u>	<u>11,006,279</u>
	<u>19,198,085</u>	<u>18,636,208</u>

Amounts recognized in profit or loss

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Fair value changes on equity investments	208,240	(754,065)	1,738,986	(568,161)
Fair value changes on preferred shares investments	(146,237)	812,742	231,785	2,884,114
Fair value changes on short-term investments measured at fair value through profit or loss	<u>(29,470)</u>	<u>6,629</u>	<u>23,824</u>	<u>39,131</u>
	<u>32,533</u>	<u>65,306</u>	<u>1,994,595</u>	<u>2,355,084</u>

9 Trade receivables

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

	As of September 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Trade receivables		
Up to 3 months	8,921,021	5,094,390
3 to 6 months	588,592	392,868
6 months to 1 year	262,353	116,279
1 to 2 years	97,191	16,630
Over 2 years	<u>61,892</u>	<u>46,873</u>
	9,931,049	5,667,040
Less: allowance for impairment	<u>(135,529)</u>	<u>(68,597)</u>
	<u><u>9,795,520</u></u>	<u><u>5,598,443</u></u>

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

10 Inventories

	As of September 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Raw materials	6,954,630	7,343,118
Finished goods	14,106,928	19,112,105
Work in progress	2,630,838	2,068,834
Spare parts	1,535,765	1,156,825
Others	<u>1,846,259</u>	<u>1,651,854</u>
	27,074,420	31,332,736
Less: provision for impairment	<u>(833,249)</u>	<u>(1,852,051)</u>
	<u><u>26,241,171</u></u>	<u><u>29,480,685</u></u>

11 Borrowings

	As of September 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities	1,840,000	2,752,815
Fund raised through trusts	1,320,000	—
Secured borrowings	2,172,565	1,260,941
Unsecured borrowings	—	3,842,387
	<u>5,332,565</u>	<u>7,856,143</u>
Included in current liabilities		
Asset-backed securities	2,758,642	586,282
Fund raised through trusts	—	648,390
Unsecured borrowings	7,444,335	1,840,522
	<u>10,202,977</u>	<u>3,075,194</u>

For the nine months ended September 30, 2019, the interest rate of the interest-bearing liabilities ranges from 4.0% to 8.0% per annum.

12 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 initial public offering (“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 in the nine months ended September 30, 2018 is set out as below:

	RMB'000
(Unaudited)	
At January 1, 2018	161,451,203
Changes in fair value	(12,514,279)
Currency translation differences	2,163,584
Conversion to ordinary shares	<u>(151,100,508)</u>
At September 30, 2018	<u>—</u>

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.

13 Other non-current liabilities

	As of September 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Liabilities to fund investors	2,883,912	2,823,504
Lease liabilities	570,227	—
Others	119,279	21,355
	<u>3,573,418</u>	<u>2,844,859</u>

14 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of September 30, 2019 and December 31, 2018, the carrying amounts of trade payables were primarily denominated in RMB, US\$ and India Rupees.

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

	As of September 30, 2019 RMB'000 (Unaudited)	As of December 31, 2018 RMB'000 (Audited)
Up to 3 months	48,217,184	44,312,748
3 to 6 months	988,526	1,656,699
6 months to 1 year	210,382	266,623
1 to 2 years	97,159	50,350
Over 2 years	36,167	851
	<u>49,549,418</u>	<u>46,287,271</u>

OTHER INFORMATION

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

During the nine months ended September 30, 2019 and up to the date of this announcement, the Company repurchased a total of 227,956,200 Class B Shares (the “**Shares Repurchased**”) of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at an aggregate consideration (including transaction cost) of HK\$2,124,765,304. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share		Aggregate Consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January	19,972,200	10.20	9.74	199,931,233
June	97,927,800	10.04	8.96	925,210,318
July	7,610,000	10.00	9.70	74,840,553
September	91,253,800	9.38	8.73	824,790,890
October	11,192,400	8.98	8.82	99,992,310
Total	<u>227,956,200</u>			<u>2,124,765,304</u>

As at the date of this announcement, the number of Class B Shares in issue was reduced by 125,510,000 shares as a result of the cancellation of the Shares Repurchased in January 2019, June 2019 and July 2019 accordingly, and all of the Shares Repurchased in September 2019 and October 2019 are in the process of being cancelled. Upon cancellation of the Shares Repurchased in January 2019, June 2019 and July 2019, the weighted voting rights (“**WVR**”) beneficiaries of the Company simultaneously reduced their WVR in the Company proportionately by way of converting their Class A ordinary shares (“**Class A Shares**”) into Class B Shares on a one-to-one ratio pursuant to Rule 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under Rules 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in January 2019 was 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.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the nine months ended September 30, 2019 and up to the date of this announcement.

Compliance with the Corporate Governance Code

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

Save for code provision A.2.1 of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules, the Company has complied with all the code provisions set out in the CG Code during the nine months ended September 30, 2019.

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

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the unaudited interim results of the Group for the three and nine months ended September 30, 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 external auditor of the Company, PricewaterhouseCoopers.

Material Litigation

As of September 30, 2019, the Company was not involved in any material litigation or arbitration, nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

Use of Net Proceeds from the Global Offering

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

Events after the end of September 30, 2019

Save as disclosed in this announcement, there has been no other significant events that might affect the Group after September 30, 2019 and up to the date of this announcement.

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, November 27, 2019

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