XIAOMI CORPORATION
小米集团
(A company controlled through weighted voting rights and incorporated in the Cayman Islands with limited liability)
(Stock Code: 1810)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

The board (the "**Board**") of directors (the "**Directors**") of Xiaomi Corporation 小米集团 (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2018 (the "**Reporting Period**"). The consolidated financial statements for the Reporting Period have been audited by PricewaterhouseCoopers, the independent auditor of the Company (the "**Auditor**") in accordance with International Standards on Auditing. In addition, the results have also been reviewed by the audit committee of the Company (the "**Audit Committee**").

In this announcement, "we", "us", and "our" refer to the Company (as defined above) and where the context otherwise requires, the Group (as defined above).

KEY HIGHLIGHTS

	Unaudited Three months ended		
	December 31, 2018	December 31, 2017	Year-on-year change
	(Renminbi ("**RMB**") in millions, unless specified)		
Revenue	**44,421.4**	35,114.1	26.5%
Gross profit	**5,661.2**	3,640.5	55.5%
Operating profit	**3,213.3**	3,014.0	6.6%
Profit/(loss) before income tax	**3,344.1**	(12,703.1)	N/A
Profit/(loss) for the period	**3,392.0**	(13,062.8)	N/A
Non-IFRS Measure:			
Adjusted net profit	**1,853.2**	550.4	236.7%

	Year ended December 31,		
	2018	2017	Year-on-year change
	(RMB in millions, unless specified)		
Revenue	**174,915.4**	114,624.7	52.6%
Gross profit	**22,191.9**	15,154.2	46.4%
Operating profit[1]	**1,196.5**	12,215.5	-90.2%
Profit/(loss) before income tax	**13,927.1**	(41,829.4)	N/A
Profit/(loss) for the year	**13,477.7**	(43,889.1)	N/A
Non-IFRS Measure: Adjusted net profit	**8,554.5**	5,361.9	59.5%

Note: Includes an one-off share-based compensation of RMB9.9 billion in the second quarter of 2018.

BUSINESS REVIEW AND OUTLOOK

1. Overall financial performance

For the Reporting Period, we achieved strong revenue growth across all our business segments. We recorded RMB174.9 billion in revenue, representing a year-on-year increase of 52.6%. Adjusted net profit grew by 59.5% year-on-year to RMB8.6 billion. According to IDC Consulting (Beijing) Ltd. ("**IDC**"), our smartphone shipments were ranked fourth in the world during the Reporting Period. The number of connected IoT devices (excluding smartphones and laptops) on our IoT platform has reached approximately 150.9 million units, a year-on-year increase of 193.2%, solidifying our leading position in the market. Our AI assistant "小愛同學" had been installed and activated on more than 100 million smart devices as of December 31, 2018 and had over 38.8 million monthly active users ("**MAU**") in December 2018. Our internet services segment recorded year-on-year growth of 61.2% and contributed RMB16.0 billion in revenue.

2. Smartphones

Our smartphones segment recorded approximately RMB113.8 billion in revenue for the Reporting Period, representing an increase of 41.3% over the previous year. Compared with the 4.1% year-on-year decline of shipments in the global smartphone market, according to IDC, our smartphone sales volume for the Reporting Period reached 118.7 million units, representing an increase of 29.8% over the previous year. We are one of a few companies in the industry that maintained high growth in 2018.

During the Reporting Period, we successfully executed our strategy to continue to strengthen our market position in the mid- to high-end range smartphone market in mainland China. We launched several flagship smartphones such as *Mi 8* and *Mi MIX 3*, which enjoyed widespread popularity. During the Reporting Period, the revenue from our mid- to high-end models has increased compared with the previous year. In the fourth quarter of 2018, the revenue generated by smartphones sold for RMB2,000 or more accounted for 31.8% of the total revenue of the smartphones segment. For the Reporting Period, our smartphones revenue in mainland China continued to grow year-on-year, driven by the increase of our smartphones average selling price ("**ASP**"). The ASP of our smartphones in mainland China increased by 17.0% year-on-year. As we shipped increasingly more smartphones in developed markets, the ASP of our smartphones in international markets also recorded a year-on-year 9.7% growth. We continued to focus on innovation with increasing investment in smartphone R&D and achieved great progress. Taking camera as an example, our new flagship smartphone *Mi 9,* launched in February 2019, achieved a DxOMark score of 107 for its rear camera, ranking top three globally at the time of launch. It also achieved a DxOMark score of 99 for the video category, which is the highest among all smartphones at the time of launch. We are also one of the early movers in 5G, launching our first 5G smartphone, *Mi MIX 3 5G*, at World Mobile Congress in February 2019.

3. IoT and lifestyle products

During the Reporting Period, revenue of the IoT and lifestyle products segment increased by 86.9% to RMB43.8 billion over the previous year.

2018 was the year when Xiaomi's large home appliances emerged from a nascent vertical to a robust business unit. During the Reporting Period, the global shipments of our smart TVs was 8.4 million units, representing a 225.5% year-on-year growth. We also entered the white goods market, launching the *Mi Air Conditioner* and the *Mi Washing Machine* in July and December 2018, respectively.

During the Reporting Period, we achieved outstanding sales performances across multiple product categories. In addition to smart TVs and laptops, our ecosystem products such as *Mi Band, Mi Electric Scooter* and *Mi Robot Vacuum Cleaner* experienced robust sales growth. Our *Mi Robot Vacuum Cleaner* ranked second in terms of shipments in mainland China during the Reporting Period. According to IDC, Xiaomi was ranked second in terms of wearables shipments across the world in the fourth quarter of 2018. During the Reporting Period, we received 43 international industrial design awards, including iF Design Awards, Red Dot Awards, International Design Excellence Awards, Good Design Awards, and Design for Asia Awards. Two such accolades went to our *Mi Sphere Camera* which was awarded the iF Gold Award and our *Mi Rearview Mirror* which was awarded the Red Dot: Best of the Best award. These awards are further testament to our exceptional design capabilities and craftsmanship.

2018 marked the commencement of our overseas IoT business expansion. We launched our smart TVs in India in February 2018 and were ranked first in terms of online TV shipments in this market during the Reporting Period.

As of December 31, 2018, there were about 2.3 million users who own more than five Xiaomi IoT devices (excluding smartphones and laptops), representing a 16.2% quarter-on-quarter growth and a 109.5% year-on-year growth.

4. Internet services

Revenue from our internet services segment grew 61.2% year-on-year to RMB16.0 billion for the Reporting Period. Advertising revenue grew by 79.9% year-on-year to RMB10.1 billion, primarily driven by continuous optimization of our recommendation algorithm, and users' increasing engagement with our internet services. Revenue from our internet value-added services also grew 36.7% year-on-year to RMB5.9 billion, of which revenue from gaming accounted for RMB2.7 billion, a 7.3% year-on-year increase. Revenue from our other internet value-added services grew 79.9% year-on-year to RMB3.2 billion, primarily due to an increase in revenue contribution from our internet finance business and Youpin e-commerce platform.

In the fourth quarter of 2018, over 30% of our internet services revenue was from internet services outside of advertising and gaming from China smartphones. We believe this reflects increasing diversification of our internet services revenue. Our overseas internet services revenue accounted for 6.3% of all internet services revenue in the fourth quarter of 2018, growing 1,295.6% year-on-year. We continued to enhance our overseas internet services and launched our popular internet services in international markets. For example, we launched our video, app store and news feed services in India and Indonesia during the Reporting Period. The MAU of our smart TVs and *Mi Box* achieved 55.3% year-on-year growth, reaching 18.6 million in December 2018. TV internet services revenue accounted for 8.2% of our total internet services revenue in the fourth quarter of 2018, with a 119.1% year-on-year increase. The revenue from our internet finance business and the Youpin e-commerce platform accounted for 11.9% and 4.1% of total revenue of internet services in the fourth quarter of 2018, with year-on-year growth rates of 80.5% and 427.6%, respectively.

As a result of our large, diverse and highly-engaged user base, we effectively expanded our internet services during the Reporting Period. Through selling more smartphones, diversifying product and content, improving customer experience, and continuously optimizing the recommendation algorithm, we attracted more active users across our apps and achieved an increase of the overall average revenue per MIUI user ("**ARPU**"). The MAU of MIUI increased 41.7% from 170.8 million in December 2017 to 242.1 million in December 2018. ARPU for internet services increased from RMB57.9 for the year ended December 31, 2017 to RMB65.9 for the Reporting Period.

5. International markets

We achieved great success in our business expansion in international markets for the Reporting Period. Our revenue from international markets grew 118.1% year-on-year to RMB70.0 billion during the Reporting Period, which accounted for 40.0% of our total revenue for the same period, compared with 28.0% for the year ended December 31, 2017.

International shipments of our smartphones continued to demonstrate strong growth momentum. According to Canalys, our smartphones achieved the number one market share position by shipments for six consecutive quarters in India, with year-on-year growth of 59.6% for the Reporting Period. In Indonesia, we were ranked second in terms of smartphone shipments for the Reporting Period, with year-on-year growth of 299.6%. Our smartphone shipments for Western Europe grew 415.2% year-on-year and we were ranked fourth in terms of smartphone shipments for the Reporting Period. Our IoT business also achieved good progress in its expansion in international markets. It will become an increasingly important contributor to our international revenue growth.

6. Strategic update

AIoT

Our IoT platform continues to grow and maintain a leading position in the industry. As of December 31, 2018, the number of connected IoT devices (excluding smartphones and laptops) on our IoT platform reached approximately 150.9 million units, a quarter-on-quarter increase of 14.7% and a year-on-year increase of 193.2%. We are encouraging increasingly more third-parties to join our open IoT platform. In December 2018, we entered into a strategic partnership with IKEA, pursuant to which IKEA's full range of smart lighting products will be connected to Xiaomi IoT platform. Our IoT user base is diversified across smartphone platforms. Our *Mi Home* app had 20.3 million MAU in December 2018 and over 50% of the users are from non-Xiaomi smartphones. Through the empowerment of AI, we greatly enhanced the user experience of our IoT devices. As of December 31, 2018, our AI assistant "小愛同學" had been installed and activated on more than 100 million smart devices and had more than 38.8 million MAU, making it one of the most used AI voice interactive platforms in mainland China. Our AI speakers have accumulated shipment of over 9 million units. We will continue to enrich our AIoT platforms by connecting more devices, providing more use cases, and refining our AI deep learning engines with the massive amount of privacy compliant data.

Multi-brand Strategy

We adopted a multi-brand strategy for our smartphones during the Reporting Period. Xiaomi and Redmi have become independent brands since January 2019. The Xiaomi brand will focus on pioneering advanced technologies, establishing itself in the mid- to high-end markets, and building online and offline new retail channels. The Redmi brand will pursue the ultimate price-performance ratio and focus on online channels. In addition, our Black Shark, Meitu, and POCO brands will target games users, female users, and tech enthusiasts, respectively. This multi-brand strategy allows us to serve different user groups more effectively, and to further expand our user base.

Efficiency

For the Reporting Period, we continued to expand our efficient offline channels while enhancing our online channels. As of December 31, 2018, we had 586 *Mi Homes* in mainland China, mainly in first-, second- and third-tier cities. Moreover, to establish our offline new retail presence in lower-tier cities and rural areas of China, we have built a sizable authorized store network during the Reporting Period. As of December 31, 2018, we had 1,378 authorized stores in total, comparing to 62 as of December 31, 2017.

Quality

2018 was a watershed year for improvement in our product quality. In recognition of our dedication to quality improvement, we appointed Mr. Yan Kesheng as the Group's Vice President and Chairman of the Quality Committee.

The quality of our products and services received widespread recognition for the Reporting Period. For example, we won the Top Prize of "China Quality Technical Award" awarded by the China Association for Quality. We received further prestigious awards including the "2018 People's Ingenuity Product Award" and the "2018 China Quality Benchmark Prize".

As the result of our ongoing efforts, the quality of our products has greatly improved. Our mainland China smartphone fault feedback ratio decreased by 43.7% year-on-year for the Reporting Period. The actual repair costs within the warranty period incurred has been consistently reducing. In order to share the savings from quality improvement with our users, we redefined the quality standards of smartphones by providing an 18-month long warranty for our *Redmi Note 7 series*, 50% higher than the industry standard.

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 the Reporting Period, Xiaomi's Hardware Business ("**HB**"), including sales of smartphones, IoT and lifestyle products, will have an overall net profit margin that will not exceed 5.0% per year. If the net margin exceeds 5.0%, we will return the excess above 5.0% to our users. During the Reporting Period, our hardware business (including smartphones, IoT and lifestyle products) was profitable with a net margin of less than 1.0%, fulfilling our pledge. For the definition of hardware business net margin, please refer to Hardware Business Net Margin.

Strategic Cooperation

1. We entered into a strategic cooperation agreement with Meitu, Inc. ("**Meitu**") in the fourth quarter of 2018, pursuant to which we would be responsible for the design, research and development, production, business operation, sales and marketing of Meitu branded smartphones (the "**Cooperation Smartphones**") while Meitu would be responsible for certain image-related algorithms and technologies of the Cooperation Smartphones cameras. Meitu's image-related algorithms and technologies can help us provide better photographic experience to our users. At the same time, the strength of Meitu's brand among females can also help us continue to expand and diversify our user base.

2. We entered into a strategic partnership with TCL Corporation ("**TCL**") in the fourth quarter of 2018 to start joint research and development in smart hardware and core electronics components. Such cooperation in relation to supply chain and manufacturing capacity in the home appliance industry will help us further expand our business in this industry.

Outlook and Strategy

1. Smartphones and AIoT: In 2019, we officially launched the "smartphones + AIoT" dual-engine strategy. For our smartphones business, we will continue to: (i) strengthen our internal processes; (ii) invest in innovation, quality control and supply chain management; and (iii) promote our multi-brand strategy. We will also continue to invest in the development of our open AIoT platform. With the upcoming 5G deployment, we believe that there will be more innovative applications available for AIoT in the future. We expect to invest over RMB10.0 billion in the development in AIoT in the next 5 years to capture this exciting opportunity.

2. International: We will continue to explore the global markets and replicate the success in India in other key markets such as Indonesia and Western Europe. We will also expand into more new international markets in 2019.

3. New retail: In mainland China, we will continue to strengthen our distribution capabilities and build an omni-channel new retail network that delivers comprehensive product categories. While maintaining our leading position in the e-commerce market, we will continue to optimize our offline distribution channel to further strengthen our advantage in efficiency. We will also replicate our experience in building new retail channel into international markets.

4. Internet: We will further diversify, enhance and optimize our internet services in mainland China and continue to expand and diversify our client base. Meanwhile, we will actively expand our fast-growing IoT device-based internet services, such as TV internet services and overseas internet services, and continue to grow the services that have the potential to expand to non-Xiaomi smartphone users, such as internet finance and the Youpin e-commerce platform.

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table sets forth the comparative figures for the years ended December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
	(RMB in millions)	
Revenue	**174,915.4**	114,624.7
Cost of sales	**(152,723.5)**	(99,470.5)
Gross profit	**22,191.9**	15,154.2
Selling and marketing expenses	**(7,993.1)**	(5,231.5)
Administrative expenses	**(12,099.1)**	(1,216.1)
Research and development expenses	**(5,776.8)**	(3,151.4)
Fair value changes on investments measured at fair value through profit or loss	**4,430.4**	6,371.1
Share of losses of investments accounted for using the equity method	**(614.9)**	(231.5)
Other income	**844.8**	448.7
Other gains, net	**213.3**	72.0
Operating profit	**1,196.5**	12,215.5
Finance income, net	**216.3**	26.7
Fair value changes of convertible redeemable preferred shares	**12,514.3**	(54,071.6)
Profit/(loss) before income tax	**13,927.1**	(41,829.4)
Income tax expenses	**(449.4)**	(2,059.7)
Profit/(loss) for the year	**13,477.7**	(43,889.1)
Non-IFRS Measure: Adjusted net profit	**8,554.5**	5,361.9

Revenue

Revenue increased by 52.6% to RMB174.9 billion for the Reporting Period, compared to RMB114.6 billion for the year ended December 31, 2017. The following table sets forth our revenue by line of business for the Reporting Period and the year ended December 31, 2017.

	Year ended December 31,			
	2018		2017	
	Amount	**% of total revenue**	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**113,800.4**	**65.1%**	80,563.6	70.3%
IoT and lifestyle products	**43,816.9**	**25.1%**	23,447.8	20.5%
Internet services	**15,955.6**	**9.1%**	9,896.4	8.6%
Others	**1,342.5**	**0.7%**	716.9	0.6%
Total revenue	**174,915.4**	**100.0%**	114,624.7	100.0%

Smartphones

Revenue from our smartphones segment increased by 41.3% from RMB80.6 billion for the year ended December 31, 2017 to RMB113.8 billion for the Reporting Period, driven by growth in both sales volume and ASP. We sold approximately 118.7 million smartphone units for the Reporting Period, compared to approximately 91.4 million units for the year ended December 31, 2017. The ASP of our smartphones was RMB959.1 per unit for the Reporting Period, compared with RMB881.3 per unit for the year ended December 31, 2017. The increase in ASP was primarily due to strong sales of our mid- to high-end models in the mainland China market, consistent with the shifts in consumer demand in mainland China's smartphone market and our strategy to optimize our product portfolio. In overseas markets, as we are shipping increasingly more smartphones to developed markets, the ASP of our smartphones in overseas markets also recorded a 9.7% growth year-on-year.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 86.9% from RMB23.4 billion for the year ended December 31, 2017 to RMB43.8 billion for the Reporting Period, primarily due to the rapid growth in demand of our smart TVs and several sought-after ecosystem products such as *Mi Band, Mi Electric Scooter and Mi Robot Vacuum Cleaner*. Revenue from smart TVs and laptops, increased by 118.4% from RMB8.3 billion for the year ended December 31, 2017 to RMB18.2 billion for the Reporting Period.

Internet services

Revenue from our internet services segment increased by 61.2% from RMB9.9 billion for the year ended December 31, 2017 to RMB16.0 billion for the Reporting Period, primarily due to growth in advertising and other internet value-added services. Our MIUI MAU increased by 41.7% from 170.8 million in December 2017 to 242.1 million in December 2018.

Others

Other revenue increased by 87.3% from RMB716.9 million for the year ended December 31, 2017 to RMB1,342.5 million for the Reporting Period, primarily due to an increase in out-of-warranty service revenue in-line with our increase in hardware sales.

Cost of Sales

Our cost of sales increased by 53.5% from RMB99.5 billion for the year ended December 31, 2017 to RMB152.7 billion for the Reporting Period.

	Year ended December 31,			
	2018		2017	
	Amount	**% of total revenue**	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**106,757.1**	**61.0%**	73,462.3	64.1%
IoT and lifestyle products	**39,306.1**	**22.5%**	21,497.0	18.8%
Internet services	**5,683.9**	**3.2%**	3,935.6	3.4%
Others	**976.4**	**0.6%**	575.6	0.5%
Total cost of sales	**152,723.5**	**87.3%**	99,470.5	86.8%

Smartphones

Cost of sales related to our smartphones segment increased by 45.3% from RMB73.5 billion for the year ended December 31, 2017 to RMB106.8 billion for the Reporting Period, mainly due to increased sales of our smartphones and the appreciation of the United States dollar against the RMB and Indian Rupee.

We reassessed warranty provision in the fourth quarter of 2018. Through our relentless efforts over the past years, in particular, the work conducted by the newly established group level Quality Committee, the quality of our products has greatly improved. The actual repair costs within the warranty period incurred has been consistently reducing and was lower than the warranty provisioned during the Reporting Period. Therefore, we revisited the warranty provision percentage to better reflect the actual business performance while ensuring that the warranty provision to cover future claims on products under warranty is adequate. This has taken into account the new 18-month long warranty program for some smartphone models. The warranty provision remained stable at RMB1.7 billion as of December 31, 2018, compared to RMB1.7 billion as of December 31, 2017. The warranty expenses recognized in the Reporting Period was RMB1.1 billion, compared to RMB1.8 billion in the year ended December 31, 2017. In order to return some of the gains from quality improvement to our users, we reflected these factors in the pricing of smartphones and provided discounts to our users on certain existing smartphone models. Such promotions resulted in additional inventory provision for unsold smartphones.

Furthermore, in anticipation of the separation of Redmi brand and new Xiaomi smartphone product launches in the first quarter of 2019, we increased the provision for impairment of inventories. The provision for impairment on our balance sheet was RMB1.9 billion as of December 31, 2018, compared to RMB0.7 billion as of December 31, 2017. Such additional provision provides us with pricing flexibility to promote existing smartphone models after the launch of new smartphones in 2019.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 82.8% from RMB21.5 billion for the year ended December 31, 2017 to RMB39.3 billion for the Reporting Period, primarily due to increased sales of smart TVs and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 44.4% from RMB3.9 billion for the year ended December 31, 2017 to RMB5.7 billion for the Reporting Period, primarily due to increased infrastructure service spending resulting from higher user traffic and engagement.

Others

Cost of sales in our others segment increased by 69.6% from RMB575.6 million for the year ended December 31, 2017 to RMB976.4 million for the Reporting Period, primarily due to increased out-of-warranty service costs.

Gross Profit and Margin

Because of the above mentioned, our gross profit increased by 46.4% from RMB15.2 billion for the year ended December 31, 2017 to RMB22.2 billion for the Reporting Period. The gross profit margin from our smartphones segment decreased from 8.8% for the year ended December 31, 2017 to 6.2% for the Reporting Period. In order to lay the groundwork to capture long term value, we selectively prioritized higher growth to capture market share in key products over higher gross margins. We are also closely monitoring changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact.

The gross profit margin from our IoT and lifestyle products segment increased from 8.3% for the year ended December 31, 2017 to 10.3% for the Reporting Period, mainly due to the improvement of gross margin in our smart TVs. The gross profit margin from our internet services segment increased from 60.2% for the year ended December 31, 2017 to 64.4% for the Reporting Period, as the percentage of revenue from higher margin advertising business was larger. As a result of the foregoing, our gross margin decreased from 13.2% for the year ended December 31, 2017 to 12.7% for the Reporting Period.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 52.8% from RMB5.2 billion for the year ended December 31, 2017 to RMB8.0 billion for the Reporting Period, primarily due to higher packaging and transportation expenses, the compensations for our sales and marketing personnel, and increase of advertising expenses. Packaging and transportation expenses increased by 97.9% from RMB1.0 billion for the year ended December 31, 2017 to RMB1.9 billion for the Reporting Period, primarily due to rapid growth in our international IoT business. Advertising expenses increased primarily due to our enhanced marketing efforts, such as advertising in relation to the World Cup and several high profile TV shows during the Reporting Period.

Administrative Expenses

Our administrative expenses increased from RMB1.2 billion for the year ended December 31, 2017 to RMB12.1 billion for the Reporting Period, primarily due to an one-off share based compensation. Excluding the one-off share-based compensation relating to administrative expenses, our administrative expenses increased from RMB1.2 billion for the year ended December 31, 2017 to RMB2.2 billion for the Reporting Period, primarily due to the expansion of our administration departments. Compensation relating to our administrative personnel increased from RMB0.6 billion for the year ended December 31, 2017 to RMB1.3 billion for the Reporting Period, primarily due to the increased headcount to accommodate for the rapid growth of our business.

Research and Development Expenses

Our research and development expenses increased by 83.3% from RMB3.2 billion for the year ended December 31, 2017 to RMB5.8 billion for the Reporting Period, primarily due to the increase in total compensation relating to our research and development personnel and the expansion of our smartphones, AI, internet services and other research projects, reflecting our increased focus on research and development. Salaries and benefits relating to research and development personnel increased primarily due to increased headcount to accommodate the rapid growth of our business.

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 30.5% from a gain of RMB6.4 billion for the year ended December 31, 2017 to a gain of RMB4.4 billion for the Reporting Period, primarily due to changes in fair value of our equity and preferred share investments for the Reporting Period.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method increased by 165.6% from RMB231.5 million for the year ended December 31,2017 to RMB614.9 million for the Reporting Period, primarily due to share of loss of iQIYI, Inc of RMB616.3 million (NASDAQ ticker: IQ) for the Reporting Period.

Other Income

Our other income increased by 88.3% from RMB448.7 million for the year ended December 31, 2017 to RMB844.8 million for the Reporting Period, primarily due to increase of income from wealth management products.

Other Gains, Net

Our net other gains, increased by 196.1% from RMB72.0 million in the year ended December 31, 2017 to RMB213.3 million in the Reporting Period, primarily due to the recognition of foreign exchange losses of RMB14.6 million for the Reporting Period, compared to foreign exchange losses of RMB144.3 million for the year ended December 31, 2017. The decrease in foreign exchange losses primarily resulted from the increase in United States Dollar assets from the gross proceeds of our initial public offering.

Finance Income, Net

Our net finance income increased by 707.8% from RMB26.7 million in the year of 2017 to RMB216.3 million in the year of 2018, primarily due to increase in our interest income. Our interest income increased primarily due to more bank deposits which generated higher interest received.

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". Fair value changes of convertible redeemable preferred shares changed from a loss of RMB54.1 billion for the year ended December 31, 2017 to a gain of RMB12.5 billion for the Reporting Period, primarily due to revaluation of equity value of the Company based on the Offer Price in the Global Offering. After the completion of the Global Offering, all our convertible redeemable preferred shares were automatically converted to our Class B ordinary shares (the "**Class B Shares**"). The fair value of each of convertible redeemable preferred share is equivalent to the fair value of each of our Class B Shares on the conversion date, which is the Offer Price in the Global Offering.

Income Tax Expenses

Our income tax expenses decreased from RMB2.1 billion for the year ended December 31, 2017 to RMB0.4 billion for the Reporting Period, primarily due to: 1) an increase of deferred tax assets, and 2) a subsidiary becoming qualified as a "Key Software Enterprise" which enjoys a preferential income tax rate of 10%. This resulted in a reversal of over accrued income tax expense during the Reporting Period.

Profit/(Loss) for the Year

As a result of the above mentioned, we reached a profit of RMB13.5 billion for the Reporting Period, compared with a loss of RMB43.9 billion for the year ended December 31, 2017.

Fourth Quarter of 2018 Compared to Fourth Quarter of 2017

The following table sets forth the comparative figures for the fourth quarter of 2018 and the fourth quarter of 2017:

	Unaudited Three months ended	
	December 31, 2018	December 31, 2017
	(RMB in millions)	
Revenue	**44,421.4**	35,114.1
Cost of sales	**(38,760.2)**	(31,473.6)
Gross profit	**5,661.2**	3,640.5
Selling and marketing expenses	**(2,327.8)**	(1,914.5)
Administrative expenses	**(593.6)**	(450.1)
Research and development expenses	**(1,775.0)**	(1,034.6)
Fair value changes on investments measured at fair value through profit or loss	**2,075.3**	2,780.6
Share of losses of investments accounted for using the equity method	**(318.3)**	(13.7)
Other income	**220.2**	145.5
Other gains/(losses), net	**271.3**	(139.7)
Operating profit	**3,213.3**	3,014.0
Finance income, net	**130.8**	16.2
Fair value changes of convertible redeemable preferred shares	**—**	(15,733.3)
Profit/(loss) before income tax	**3,344.1**	(12,703.1)
Income tax income/(expenses)	**47.9**	(359.7)
Profit/(loss) for the period	**3,392.0**	(13,062.8)
Non-IFRS Measure: Adjusted net profit	**1,853.2**	550.4

Revenue

Revenue increased by 26.5% to RMB44.4 billion for the fourth quarter of 2018 on a year-on-year basis. The following table sets forth our revenue by line of business for the fourth quarter of 2018 and the fourth quarter of 2017:

	Unaudited Three months ended			
	December 31, 2018		December 31, 2017	
	Amount	**% of total revenue**	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**25,077.3**	**56.5%**	23,440.1	66.8%
IoT and lifestyle products	**14,936.7**	**33.6%**	8,513.9	24.2%
Internet services	**4,037.3**	**9.1%**	2,897.6	8.3%
Others	**370.1**	**0.8%**	262.5	0.7%
Total revenue	**44,421.4**	**100.0%**	35,114.1	100.0%

Smartphones

Revenue from our smartphones segment increased by 7.0% from RMB23.4 billion for the fourth quarter of 2017 to RMB25.1 billion for the fourth quarter of 2018, driven by growth in the ASP of our smartphones. We sold approximately 25.0 million units of smartphones in the fourth quarter of 2018, compared to approximately 28.5 million units in the fourth quarter of 2017. The decline in shipment is mainly due to our smartphone launch schedule during the Reporting Period reflecting our product strategy. We only launched two new smartphone models which are *Mi MIX 3* in October 2018 and *Mi Play* in late December 2018. Furthermore, *Mi MIX 3* is the most premium phone in our 2018 portfolio. This product enhanced our presence in the high-end smartphone market. The fourth quarter of 2018 was a period of adjustment to prepare for the launch of Redmi brand and our new Xiaomi smartphone products in 2019. We launched *Redmi Note 7* series in January 2019 and its shipment exceeded one million units in mainland China alone within a month. We expect the shipment of *Redmi Note 7* series to exceed 4 million units by the end of March 2019. *Mi 9* series were launched in February 2019, and we expect its supply to exceed 1.5 million units by the end of March 2019.

The ASP of our smartphones was RMB1,004.7 per unit for the fourth quarter of 2018, compared with RMB823.9 per unit for the fourth quarter of 2017. The increase in ASP was primarily due to strong sales performance of our mid- to high-end models and increasing proportion of international smartphone shipments to Western Europe.

IoT and lifestyle products

Our revenue from our IoT and lifestyle products segment increased by 75.4% from RMB8.5 billion for the fourth quarter of 2017 to RMB14.9 billion for the fourth quarter of 2018, primarily due to the rapid growth in demand of our smart TVs and several sought-after ecosystem products such as *Mi Band*, *Mi Electric Scooter* and *Mi Robot Vacuum Cleaner*. Revenue from smart TVs and laptops, increased by 97.5% from RMB3.3 billion for the fourth quarter of 2017 to RMB6.6 billion for the fourth quarter of 2018.

Internet services

Revenue from our internet services segment increased by 39.3% from RMB2.9 billion for the fourth quarter of 2017 to RMB4.0 billion for the fourth quarter of 2018, primarily due to growth in advertising business. Our MIUI MAU increased by 41.7% from 170.8 million in December 2017 to 242.1 million in December 2018.

Others

Our other revenue increased by 41.0% from RMB262.5 million for the fourth quarter of 2017 to RMB370.1 million for the fourth quarter of 2018, primarily due to the increased out-of-warranty service revenue.

Cost of Sales

Our cost of sales increased by 23.2% from RMB31.5 billion for the fourth quarter of 2017 to RMB38.8 billion for the fourth quarter of 2018.

	Unaudited Three months ended			
	December 31, 2018		December 31, 2017	
	Amount	**% of total revenue**	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**23,557.5**	**53.0%**	21,740.7	61.9%
IoT and lifestyle products	**13,358.9**	**30.1%**	8,207.1	23.4%
Internet services	**1,496.5**	**3.4%**	1,233.0	3.5%
Others	**347.3**	**0.8%**	292.8	0.8%
Total cost of sales	**38,760.2**	**87.3%**	31,473.6	89.6%

Smartphones

Cost of sales related to our smartphones segment increased by 8.4% from RMB21.7 billion for the fourth quarter of 2017 to RMB23.6 billion for the fourth quarter of 2018, due to strong sales performance of our mid- to high-end models in the mainland China market with higher ASPs.

We reassessed warranty provision in the fourth quarter of 2018. Through our relentless efforts over the past years, in particular, the work conducted by the newly established group level Quality Committee, the quality of our products has greatly improved. The actual repair costs within the warranty period incurred has been consistently reducing and was lower than the warranty provisioned during the Reporting Period. Therefore, we revisited the warranty provision percentage to better reflect the actual business performance while ensuring that the warranty provision to cover future claims on products under warranty is adequate. This has taken into account the new 18-month long warranty program for some smartphone models. In order to return some of the gains from quality improvement to our users, we reflected these factors in the pricing of smartphones and provided discounts to our users on certain existing smartphone models. Such promotions resulted in additional inventory provision for unsold smartphones.

Furthermore, in anticipation of the separation of Redmi brand and new Xiaomi smartphone product launches in the first quarter of 2019, we increased the provision for impairment of inventories. Such additional provision provides us with pricing flexibility to promote existing smartphone models after the launch of new smartphones in 2019.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 62.8% from RMB8.2 billion for the fourth quarter of 2017 to RMB13.4 billion for the fourth quarter of 2018, primarily due to increased sales of smart TVs and laptops and other IoT products.

Internet services

Cost of sales related to our internet services segment increased by 21.4% from RMB1.2 billion for the fourth quarter of 2017 to RMB1.5 billion for the fourth quarter of 2018, primarily due to growth in costs from financial services and increased infrastructure service spending resulting from higher user traffic and engagement.

Others

Cost of sales in our others segment increased by 18.6% from RMB292.8 million for the fourth quarter of 2017 to RMB347.3 million for the fourth quarter of 2018, primarily due to the increased out-of-warranty service costs.

Gross Profit and Margin

Because of the above mentioned, our gross profit increased by 55.5% from RMB3.6 billion for the fourth quarter of 2017 to RMB5.7 billion for the fourth quarter of 2018.

The gross profit margin from our smartphones segment decreased from 7.3% for the fourth quarter of 2017 to 6.1% for the fourth quarter of 2018. In order to lay the groundwork to capture long term value, we selectively prioritized higher growth to capture market share in key products over higher gross margins. We are also closely monitoring changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact. We also reassessed warranty provision percentage and incurred more inventory provision in the fourth quarter of 2018.

The gross profit margin from our IoT and lifestyle products segment increased from 3.6% for the fourth quarter of 2017 to 10.6% for the fourth quarter of 2018. The gross profit margin from our internet services segment increased from 57.4% for the fourth quarter of 2017 to 62.9% for the fourth quarter of 2018. As a result of the foregoing, our gross margin increased from 10.4% for the fourth quarter of 2017 to 12.7% for the fourth quarter of 2018.

Selling and Marketing Expenses

Our sale and marketing expenses increased by 21.6% from RMB1.9 billion for the fourth quarter of 2017 to RMB2.3 billion for the fourth quarter of 2018, primarily due to the increase in higher packaging and transportation expenses, offset by the decrease of advertising expenses. The packaging and transportation increased from RMB319.9 million for the fourth quarter of 2017 to RMB693.5 million for the fourth quarter of 2018. Advertising expenses decreased primarily due to reduced marketing expenses in relation to the TV shows.

Administrative Expenses

Our administrative expenses increased by 31.9% from RMB450.1 million for the fourth quarter of 2017 to RMB593.6 million for the fourth quarter of 2018, primarily due to the expansion of our administration departments. Compensation relating to our administrative personnel increased from RMB157.5 million for the fourth quarter of 2017 to RMB325.5 million for the fourth quarter of 2018, primarily due to the increased headcount to accommodate for the rapid growth of our business.

Research and Development Expenses

Our research and development expenses increased by 71.6% from RMB1.0 billion for the fourth quarter of 2017 to RMB1.8 billion for the fourth quarter of 2018, primarily due to the expansion of our research and development efforts for our smartphones, AI, internet services efforts and expansion of our research projects, reflecting our increased focus on research and development. The compensation relating to our research and development personnel increased primarily due to the increased headcount to accommodate for the rapid growth of our business.

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 25.4% from a gain of RMB2.8 billion of the fourth quarter of 2017 to a gain of RMB2.1 billion for the fourth quarter of 2018, primarily due to changes in fair value of our equity and preferred share investments for the fourth quarter of 2018.

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 RMB13.7 million in the fourth quarter of 2017 to RMB318.3 million in the fourth quarter of 2018, primarily due to share of loss of iQIYI, Inc. (NASDAQ ticker: IQ) in the fourth quarter of 2018.

Other Income

Our other income increased by 51.3% from RMB145.5 million for the fourth quarter of 2017 to RMB220.2 million for the fourth quarter of 2018, primarily due to increase in value-added tax refunds and increase of income from wealth management products.

Other Gains/(Losses), Net

Our other gains/(losses), net changed from RMB139.7 million net losses for the fourth quarter of 2017 to RMB271.3 million net gains for the fourth quarter of 2018, primarily due to the recognition of foreign exchange gains of RMB135.9 million for the fourth quarter of 2018, compared to foreign exchange losses of RMB19.4 million for the fourth quarter of 2017. The net changes from foreign exchange losses to foreign exchange gains primarily resulted from the increase in United States Dollar assets from the gross proceeds of our initial public offering.

Finance Income, Net

Our net finance income increased by 707.7% from RMB16.2 million in the fourth quarter of 2017 to RMB130.8 million in the fourth quarter of 2018, primarily due to increase in our interest income. Our interest income increased primarily due to more bank deposits which generated higher interest received.

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 fourth quarter of 2018, compared to a loss of RMB15.7 billion for the fourth quarter of 2017. After the completion of the Global Offering, all our convertible redeemable preferred shares were automatically converted to our Class B Shares and thus in the fourth quarter of 2018 and forward, we will not incur fair value changes of convertible redeemable preferred shares.

Income Tax Income/(Expenses)

Our income tax income/(expenses) changed from RMB359.7 million income tax expenses in the fourth quarter of 2017 to an income tax income of RMB47.9 million in the fourth quarter of 2018, primarily due to: 1) an increase of deferred tax assets, and 2) a subsidiary becoming qualified as a "Key Software Enterprise" which enjoys a preferential income tax rate of 10%. This resulted in a reversal of over accrued income tax expense during the fourth quarter of 2018.

Profit/(Loss) for the Period

As a result of the foregoing, we had a loss of RMB13.1 billion and a profit of RMB3.4 billion for the fourth quarter of 2017 and 2018, respectively.

Fourth Quarter of 2018 Compared to Third Quarter of 2018

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

	Unaudited Three months ended	
	December 31, 2018	September 30, 2018
	(RMB in millions)	
Revenue	**44,421.4**	50,846.2
Cost of sales	**(38,760.2)**	(44,268.7)
Gross profit	**5,661.2**	6,577.5
Selling and marketing expenses	**(2,327.8)**	(2,186.9)
Administrative expenses	**(593.6)**	(583.3)
Research and development expenses	**(1,775.0)**	(1,534.4)
Fair value changes on investments measured at fair value through profit or loss	**2,075.3**	65.3
Share of losses of investments accounted for using the equity method	**(318.3)**	(184.4)
Other income	**220.2**	259.1
Other gains/(losses), net	**271.3**	(202.3)
Operating profit	**3,213.3**	2,210.6
Finance income, net	**130.8**	100.1
Fair value changes of convertible redeemable preferred shares	**—**	52.9
Profit before income tax	**3,344.1**	2,363.6
Income tax income	**47.9**	116.9
Profit for the period	**3,392.0**	2,480.5
Non-IFRS Measure: Adjusted net profit	**1,853.2**	2,885.2

Revenue

Revenue decreased by 12.6% to RMB44.4 billion for the fourth quarter of 2018 on a quarter-on-quarter basis. The following table sets forth our revenue by line of business for the fourth quarter of 2018 and the third quarter of 2018:

	Unaudited Three months ended			
	December 31, 2018		September 30, 2018	
	Amount	**% of total revenue**	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**25,077.3**	**56.5%**	34,982.5	68.8%
IoT and lifestyle products	**14,936.7**	**33.6%**	10,804.8	21.3%
Internet services	**4,037.3**	**9.1%**	4,728.7	9.3%
Others	**370.1**	**0.8%**	330.2	0.6%
Total revenue	**44,421.4**	**100.0%**	50,846.2	100%

Smartphones

Revenue from our smartphones segment decreased by 28.3% from RMB35.0 billion for the third quarter of 2018 to RMB25.1 billion for the fourth quarter of 2018, due to adjustments in product mix and our product launch schedule. We sold approximately 25.0 million units of smartphones for the fourth quarter of 2018, compared to approximately 33.3 million units in the third quarter of 2018. The decline in shipment is mainly due to our smartphone launch schedule during the Reporting Period reflecting our product strategy. We only launched two new smartphone models which are *Mi MIX 3* in October 2018 and *Mi Play* in late December 2018. Furthermore, *Mi MIX 3* is the most premium phone in our 2018 portfolio. This product enhanced our presence in the high-end smartphone market. The fourth quarter of 2018 was a period of adjustment to prepare for the launch of Redmi brand and our new Xiaomi smartphone products in 2019. We launched *Redmi Note 7* series in January 2019 and its shipment exceeded one million units in mainland China alone within a month. We expect the shipment of *Redmi Note 7* series to exceed 4 million units by the end of March 2019. *Mi 9* series were launched in February 2019, and we expect its supply to exceed 1.5 million units by the end of March 2019.

The ASP of our smartphones was RMB1,004.7 per unit for the fourth quarter of 2018, compared with RMB1,052.0 per unit for the third quarter of 2018, primarily due to enhanced marketing efforts during various online shopping festivals in the fourth quarter of 2018.

IoT and lifestyle products

Our revenue from our IoT and lifestyle products segment increased by 38.2% from RMB10.8 billion for the third quarter of 2018 to RMB14.9 billion for the fourth quarter of 2018, primarily due to strong growth in existing products, particularly smart TVs and laptops and also the rapid growth in demand of our smart TVs, laptops and several sought-after ecosystem products such as *Mi Air Purifier*, *Mi Robot Vacuum Cleaner*, and *Mi Power Bank*. Revenue from smart TVs and laptops, increased by 55.1% from RMB4.2 billion for the third quarter of 2018 to RMB6.6 billion for the fourth quarter of 2018.

Internet services

Revenue from our internet services segment decreased by 14.6% from RMB4.7 billion for the third quarter of 2018 to RMB4.0 billion for the fourth quarter of 2018, primarily due to decreased advertising revenue. In the fourth quarter of 2018, over 30% of our internet services revenue was from internet services outside of advertising and gaming from China smartphones. We believe this reflects increasing diversification of our internet services revenue. Our MIUI MAU increased by 7.9% from 224.4 million in September 2018 to 242.1 million in December 2018.

Cost of Sales

Our cost of sales decreased by 12.4% from RMB44.3 billion for the third quarter of 2018 to RMB38.8 billion for the fourth quarter of 2018.

	Unaudited Three months ended			
	December 31, 2018		September 30, 2018	
	Amount	**% of total revenue**	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**23,557.5**	**53.0%**	32,847.4	64.6%
IoT and lifestyle products	**13,358.9**	**30.1%**	9,672.8	19.0%
Internet services	**1,496.5**	**3.4%**	1,494.9	2.9%
Others	**347.3**	**0.8%**	253.6	0.6%
Total cost of sales	**38,760.2**	**87.3%**	44,268.7	87.1%

Smartphones

Cost of sales related to our smartphones segment decreased by 28.3% from RMB32.8 billion for the third quarter of 2018 to RMB23.6 billion for the fourth quarter of 2018, primarily due to decline in sales of our smartphones.

We reassessed warranty provision in the fourth quarter of 2018. Through our relentless efforts over the past years, in particular, the work conducted by the newly established group level Quality Committee, the quality of our products has greatly improved. The actual repair costs within the warranty period incurred has been consistently reducing and was lower than the warranty provisioned during the Reporting Period. Therefore, we revisited the warranty provision percentage to better reflect the actual business performance while ensuring that the warranty provision to cover future claims on products under warranty is adequate. This has taken into account the new 18-month long warranty program for some smartphone models. In order to return some of the gains from quality improvement to our users, we reflected these factors in the pricing of smartphones and provided discounts to our users on certain existing smartphone models. Such promotions resulted in additional inventory provision for unsold smartphones.

Furthermore, in anticipation of the separation of Redmi brand and new Xiaomi smartphone product launches in the first quarter of 2019, we increased the provision for impairment of inventories in the Reporting Period. Such additional provision provides us with pricing flexibility to promote existing smartphone models after the launch of new smartphones in 2019.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 38.1% from RMB9.7 billion for the third quarter of 2018 to RMB13.4 billion for the fourth quarter of 2018, primarily due to increased sales of smart TVs and laptops and other IoT products.

Internet services

Cost of sales related to our internet services segment remained stable compared with the third quarter of 2018.

Others

Cost of sales in our others segment increased by 36.9% from RMB253.6 million for the third quarter of 2018 to RMB347.3 million for the fourth quarter of 2018, primarily due to increased out-of-warranty service costs.

Gross Profit and Margin

As a result of the foregoing, our gross profit decreased by 13.9% from RMB6.6 billion for the third quarter of 2018 to RMB5.7 billion for the fourth quarter of 2018. The gross profit margin from our smartphones segment remained stable. The gross profit margin from our IoT and lifestyle products segment increased from 10.5% for the third quarter of 2018 to 10.6% for the fourth quarter of 2018. The gross profit margin from our internet services segment decreased from 68.4% for the third quarter of 2018 to 62.9% in the fourth quarter of 2018. As a result of this activity, our gross margin decreased from 12.9% for the third quarter of 2018 to 12.7% for the fourth quarter of 2018. We also reassessed warranty provision percentage and incurred more inventory provision in the fourth quarter of 2018.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 6.4% from RMB2.2 billion for the third quarter of 2018 to RMB2.3 billion for the fourth quarter of 2018, primarily due to higher packaging and transportation expenses and the compensation for our selling and marketing personnel, offset by the decrease of advertising for our selling and marketing. Packaging and transportation expenses increased by 43.8% from RMB482.3 million for the third quarter of 2018 to RMB693.5 million for the fourth quarter of 2018, primarily due to the rapid growth of international business. Advertising expenses decreased primarily due to the promotion of Mi8 and the advertisements for World Cup during the third quarter of 2018.

Administrative Expenses

Our administrative expenses increased by 1.8% from RMB583.3 million for the third quarter of 2018 to RMB593.6 million for the fourth quarter of 2018. There is no major fluctuation between the fourth quarter of 2018 and the third quarter of 2018.

Research and Development Expenses

Our research and development expenses increased by 15.7% from RMB1.5 billion for the third quarter of 2018 to RMB1.8 billion for the fourth quarter of 2018, primarily due to the increase in total salaries and bonus relating to our research and development personnel and the expansion of our research and development efforts for our smartphones, AI and internet services businesses.

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 RMB65.3 million for the third quarter of 2018 to a gain of RMB2,075.3 million for the fourth quarter of 2018, primarily due to changes in fair value of the equity and preferred share investments for the fourth quarter of 2018.

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 72.6% from RMB184.4 million in the third quarter of 2018 to RMB318.3 million in the fourth quarter of 2018, primarily due to share of loss of Xunlei Limited (Nasdaq ticker: XNET) and iQIYI, Inc. (NASDAQ ticker: IQ) in the fourth quarter compared to the third quarter of 2018.

Other Income

Our other income decreased by 15.0% from RMB259.1 million in the third quarter of 2018 to RMB220.2 million in the fourth quarter of 2018.

Other Gains/(Losses), Net

Our other gains/(losses), net changed from RMB202.3 million net losses for the third quarter of 2018 to RMB271.3 million net gains for the fourth quarter of 2018, primarily due to the recognition of foreign exchange gains of RMB135.9 million for the fourth quarter of 2018, compared to foreign exchange losses of RMB197.0 million for the third quarter of 2018 due to the depreciation of United States Dollar against RMB in the fourth quarter of 2018, compared with the appreciation of Unites States Dollar against RMB in the third quarter of 2018.

Finance Income, Net

Our net finance income increased by 30.8% from RMB100.1 million in the third quarter of 2018 to RMB130.8 million in the fourth quarter of 2018, primarily due to increase in our interest income. Our interest income increased primarily due to more bank deposits which generated higher interest received.

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 fourth quarter of 2018, compared to a gain of RMB52.9 million for the third quarter of 2018. After the completion of the Global Offering, all our convertible redeemable preferred shares were automatically converted to our Class B Shares and thus in the fourth quarter of 2018 and going forward, we will not incur fair value changes of convertible redeemable preferred shares.

Income Tax Income

Our income tax income decreased by 59.0% from RMB116.9 million for the third quarter of 2018 to RMB47.9 million for the fourth quarter of 2018.

Profit for the Period

As a result of the foregoing, we secured a profit of RMB2.5 billion and a profit of RMB3.4 billion for the third and fourth quarter of 2018, 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 also use adjusted net profit as an additional financial measure, which 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. The use of this 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.

The following tables set forth reconciliations of the Group's Non-IFRS measures for the fourth quarter of 2018 and 2017, the third quarter of 2018, and the years ended December 31, 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

Unaudited Three Months Ended December 31, 2018

		Adjustments					
	As reported	**Fair value changes of convertible redeemable preferred shares**	**Share-based compensation**	**Net fair value gains on investments[(1)]**	**Amortization of intangible assets resulting from acquisitions[(2)]**	**Changes of value of financial liabilities to fund investors[(3)]**	**Non-IFRS**
	(RMB in thousand, unless specified)						
Profit for the period	**3,392,027**	**—**	**663,297**	**(2,246,032)**	**1,408**	**42,504**	**1,853,204**
Net margin	**7.6%**						**4.2%**

Unaudited Three Months Ended September 30, 2018

		Adjustments					
	As reported	**Fair value changes of convertible redeemable preferred shares**	**Share-based compensation**	**Net fair value gains on investments[(1)]**	**Amortization of intangible assets resulting from acquisitions[(2)]**	**Changes of value of financial liabilities to fund investors[(3)]**	**Non-IFRS**
	(RMB in thousand, unless specified)						
Profit for the period	**2,480,484**	**(52,934)**	**701,813**	**(246,437)**	**2,294**	**—**	**2,885,220**
Net margin	**4.9%**						**5.7%**

Unaudited Three Months Ended December 31, 2017

		Adjustments					
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[(1)]	Amortization of intangible assets resulting from acquisitions[(2)]	Changes of value of financial liabilities to fund investors[(3)]	Non-IFRS
	(RMB in thousand, unless specified)						
(Loss)/profit for the period	(13,062,856)	15,733,293	338,860	(2,459,428)	551	—	550,420
Net margin	-37.2%						1.6%

	Year Ended December 31, 2018						
		Adjustments					
	As reported	**Fair value changes of convertible redeemable preferred shares**	**Share-based compensation**	**Net fair value gains on investments(1)**	**Amortization of intangible assets resulting from acquisitions(2)**	**Changes of value of financial liabilities to fund investors(3)**	**Non-IFRS**
	(RMB in thousand, unless specified)						
Profit for the year	**13,477,747**	**(12,514,279)**	**12,380,668**	**(4,836,835)**	**4,743**	**42,504**	**8,554,548**
Net margin	**7.7%**						**4.9%**

	Year Ended December 31, 2017						
		Adjustments					
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments(1)	Amortization of intangible assets resulting from acquisitions(2)	Changes of value of financial liabilities to fund investors(3)	Non-IFRS
	(RMB in thousand, unless specified)						
(Loss)/profit for the year	(43,889,115)	54,071,603	909,155	(5,732,151)	2,384	—	5,361,876
Net margin	-38.3%						4.7%

Notes:

(1) Includes fair value gains 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, remeasurement of loss of significant influence in an associate, re-measurement of investments transferring from financial asset measured at fair value through profit or loss to investments using the equity method, net of tax.

(2) Represents amortization of intangible assets resulting from acquisitions, net of tax.

(3) Represent the change of value of the financial liabilities payable to the fund investors, net of tax, as a result of the change of fair value of the fund.

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:

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

Liquidity, Financial Resources and Gearing

Other than the funds raised through our Global Offering in July 2018, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB 30.2 billion and RMB35.2 billion as of December 31, 2018 and September 30, 2018, 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 and short-term investments measured at fair value through profit or loss. As of December 31, 2018, the aggregate amount of cash resources of the Group is RMB39.7 billion.

Consolidated Statement of Cash Flows

	Unaudited Three months ended December 31, 2018	September 30, 2018
	(in thousands of RMB)	
Net cash used in operating activities[(1)]	**(6,200,817)**	(1,335,297)
Net cash used in investing activities	**(1,454,131)**	(2,228,180)
Net cash generated from financing activities[(1)]	**2,378,542**	23,002,448
Net (decrease)/increase in cash and cash equivalents	**(5,276,406)**	19,438,971
Cash and cash equivalents at beginning of period	**35,208,793**	14,894,150
Effects of exchange rate changes on cash and cash equivalents	**297,760**	875,672
Cash and cash equivalents at end of period	**30,230,147**	35,208,793

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 increase in restricted cash resulting from the internet finance business, the net cash used in operating activities was RMB4.6 billion for the three months ended December 31, 2018 and the net cash generated from operating activities was RMB1.1 billion for the three months ended September 30, 2018, respectively; excluding the change of borrowings for the internet finance business, the net cash generated from financing activities was RMB1.1 billion for the three months ended December 31, 2018 and RMB23.8 billion for the three months ended September 30, 2018, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this announcement.

Net Cash Used In Operating Activities

Net cash used in operating activities represents cash used in operations, plus income tax paid. Cash used in operations primarily comprise of our profit for the period adjusted by non-cash items and changes in working capital.

For the fourth quarter of 2018, net cash used in operating activities amounted to RMB6.2 billion, representing cash used in operations of RMB5.9 billion plus income tax paid of RMB0.3 billion. Cash used in operations was primarily attributed to our profit before income tax of RMB3.3 billion, offset by a decrease in trade payables of RMB6.3 billion, and an increase in inventories of RMB4.9 billion. The increase in inventories was due to the decline in sales of our smartphones in the fourth quarter of 2018 and our procurement in preparation for the new product launches. Our inventories as of January 31, 2019 declined 12% comparing to that as of December 31, 2018, according to management accounts, primarily attributed to the increase in sales of our smartphones post the launch of new smartphone models. Our inventory turnover days was 55 days in January 2019, excluding the inventories related to real estate business, according to management accounts.

Net Cash Used In Investing Activities

For the fourth quarter of 2018, our net cash used in investing activities was RMB1.5 billion, which was primarily attributed to the net cash used in capital expenditure of RMB2.3 billion, offset by cash generated from the net changes of short-term investments measured at fair value through profit or loss of RMB2.3 billion.

Net Cash Generated From Financing Activities

For the fourth quarter of 2018, our net cash generated from financing activities was RMB2.4 billion, which was primarily attributed to the proceeds from borrowings of RMB3.6 billion, a withdrawal of restricted cash of RMB0.9 billion, partially offset by the repayments of borrowings of RMB2.5 billion.

Borrowings

As of September 30, 2018 and December 31, 2018, we had total borrowings of RMB9.9 billion and RMB10.9 billion, respectively.

Convertible Redeemable Preferred Shares

After the completion of the Global Offering on July 9, 2018, all our convertible redeemable preferred shares were converted into Class B shares. Therefore, no convertible redeemable preferred shares were recognized as of September 30, 2018 and December 31, 2018.

Capital Expenditure

	Three months ended	
	December 31, 2018	September 30, 2018
	(in thousands of RMB)	
Capital expenditures	**2,252,610**	518,971
Placement of long-term investments[1]	**528,060**	561,050
Total	**2,780,670**	1,080,021

Note:

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

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

Off-Balance Sheet Commitments and Arrangements

As of December 31, 2018, 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, 2018, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

For the Reporting Period, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of December 31, 2018, we had 16,683 full-time employees, 15,686 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, 2018, our research and development personnel, totaling 7,371 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, 2018, 5,966 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the Reporting Period were RMB17,114.9 million, representing an increase of 322.6% from the year ended December 31, 2017 of RMB4,050.1 million, primarily due to an one-off share-based compensation in the second quarter of 2018.

Foreign Exchange Risk

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

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

Pledge of Assets

As of December 31, 2018, we pledged a restricted deposit of RMB1,480.2 million, compared with as of September 30, 2018, which was RMB2,321.8 million.

Contingent Liabilities

As of December 31, 2018, we did not have any material contingent liabilities, compared with as of September 30, 2018, which was nil.

FINANCIAL INFORMATION

Consolidated Income Statement

For the year ended December 31, 2018

	Note	Year ended December 31, 2018 RMB'000	2017 RMB'000
Revenue	3	**174,915,425**	114,624,742
Cost of sales	4	**(152,723,486)**	(99,470,537)
Gross profit		**22,191,939**	15,154,205
Selling and marketing expenses	4	**(7,993,072)**	(5,231,540)
Administrative expenses	4	**(12,099,078)**	(1,216,110)
Research and development expenses	4	**(5,776,826)**	(3,151,401)
Fair value changes on investments measured at fair value through profit or loss	8	**4,430,359**	6,371,098
Share of losses of investments accounted for using the equity method	5	**(614,920)**	(231,496)
Other income		**844,789**	448,671
Other gains, net		**213,281**	72,040
Operating profit		**1,196,472**	12,215,467
Finance income, net		**216,373**	26,784
Fair value changes of convertible redeemable preferred shares	12	**12,514,279**	(54,071,603)
Profit/(loss) before income tax		**13,927,124**	(41,829,352)
Income tax expenses	6	**(449,377)**	(2,059,763)
Profit/(loss) for the year		**13,477,747**	(43,889,115)
Attributable to:			
— Owners of the Company		**13,553,886**	(43,826,016)
— Non-controlling interests		**(76,139)**	(63,099)
		13,477,747	(43,889,115)
Earnings/(loss) per share (expressed in RMB per share)	7		
Basic		**0.843**	(4.491)
Diluted		**0.044**	(4.491)

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2018

	Note	Year ended December 31, **2018** RMB'000	2017 RMB'000
Profit/(loss) for the year		**13,477,747**	(43,889,115)
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive income/(losses) of investments accounted for using the equity method	5	**191,449**	(22,783)
Currency translation differences		**(648,746)**	(137,124)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**(1,098,818)**	8,054,273
Other comprehensive (loss)/ income for the year, net of tax		**(1,556,115)**	7,894,366
Total comprehensive income/(loss) for the year		**11,921,632**	(35,994,749)
Attributable to:			
— Owners of the Company		**11,989,243**	(35,922,124)
— Non-controlling interests		**(67,611)**	(72,625)
		11,921,632	(35,994,749)

Consolidated Balance Sheet
As of December 31, 2018

	Note	As of December 31, 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Land use rights		**3,402,968**	3,416,359
Property and equipment		**5,068,053**	1,730,872
Intangible assets		**2,061,192**	2,274,352
Investments accounted for using the equity method	5	**8,639,238**	1,710,819
Long-term investments measured at fair value through profit or loss	8	**18,636,208**	18,856,961
Deferred income tax assets		**1,312,245**	591,576
Other non-current assets		**95,485**	150,361
		39,215,389	28,731,300
Current assets			
Inventories	10	**29,480,685**	16,342,928
Trade receivables	9	**5,598,443**	5,469,507
Loan receivables		**10,293,645**	8,144,493
Prepayments and other receivables		**20,914,946**	11,393,910
Short-term investments measured at amortized cost	8	**—**	800,000
Short-term investments measured at fair value through profit or loss	8	**6,648,526**	4,488,076
Short-term bank deposits		**1,365,991**	225,146
Restricted cash		**1,480,178**	2,711,119
Cash and cash equivalents		**30,230,147**	11,563,282
		106,012,561	61,138,461
Total assets		**145,227,950**	89,869,761

	Note	As of December 31, **2018** **RMB'000**	2017 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**377**	150
Reserves		**71,322,608**	(127,272,511)
		71,322,985	(127,272,361)
Non-controlling interests		**(72,856)**	61,670
Total equity		**71,250,129**	(127,210,691)
Liabilities			
Non-current liabilities			
Borrowings	11	**7,856,143**	7,251,312
Deferred income tax liabilities		**777,645**	1,018,651
Warranty provision		**559,016**	191,404
Convertible redeemable preferred shares	12	**—**	161,451,203
Other non-current liabilities	13	**2,844,859**	35,211
		12,037,663	169,947,781
Current liabilities			
Trade payables	14	**46,287,271**	34,003,331
Other payables and accruals		**6,312,770**	4,223,979
Advance from customers		**4,479,522**	3,390,650
Borrowings	11	**3,075,194**	3,550,801
Income tax liabilities		**661,816**	421,113
Warranty provision		**1,123,585**	1,542,797
		61,940,158	47,132,671
Total liabilities		**73,977,821**	217,080,452
Total equity and liabilities		**145,227,950**	89,869,761

Condensed Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Net cash used in operating activities	**(1,414,571)**	(995,669)
Net cash used in investing activities	**(7,508,040)**	(2,677,714)
Net cash generated from financing activities	**26,574,172**	6,214,930
Net increase in cash and cash equivalents	**17,651,561**	2,541,547
Cash and cash equivalents at the beginning of the year	**11,563,282**	9,230,320
Effects of exchange rate changes on cash and cash equivalents	**1,015,304**	(208,585)
Cash and cash equivalents at the end of the year	**30,230,147**	11,563,282

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, 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.

On July 9, 2018, the Company has successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") 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. Additionally, the Company issued and allotted 201,486,000 class B ordinary shares on July 20, 2018 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated July 18, 2018. The gross proceeds received by the Company was approximately HK$27,810,742,000 (equivalent to approximately RMB23,525,107,000). All convertible redeemable preferred shares ("**Preferred Shares**") were converted into class B ordinary shares upon completion of the initial public offering on July 9, 2018.

2 Basis of preparation

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

The Group has already adopted IFRS 9 "Financial Instruments" and IFRS15 "Revenue from Contracts with Customers" upon its first time adoption of IFRSs from January 1, 2015.

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied throughout all the years presented, unless otherwise stated.

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

(a) New standards and amendments to existing standards adopted by the Group

The following new standard, interpretation, amendments and improvements to standards, which are relevant to the Group, are first effective from January 1,2018.

- Annual Improvements to IFRSs 2014–2016 Cycle
- Amendments to IAS 40 Transfers of Investment Property
- IFRIC-Int 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS2 Classification and Measurement of Share-based Payments Transactions

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

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

There were no material inter-segment sales during the years ended December 31, 2018 and 2017. 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 years ended December 31, 2018 and 2017 are as follows:

	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**

	Year ended December 31,2017				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	80,563,594	23,447,823	9,896,389	716,936	114,624,742
Cost of sales	(73,462,255)	(21,496,958)	(3,935,638)	(575,686)	(99,470,537)
Gross profit	7,101,339	1,950,865	5,960,751	141,250	15,154,205

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the years ended December 31, 2018 and 2017, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2018 RMB'000	%	2017 RMB'000	%
Mainland China	**104,944,803**	**60.0**	82,543,462	72.0
Rest of the world (Note)	**69,970,622**	**40.0**	32,081,280	28.0
	174,915,425		114,624,742	

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

4 Expenses by nature

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Cost of inventories sold	**138,237,733**	89,468,462
Provision for impairment of inventories	**3,006,525**	652,560
Royalty fees	**4,263,421**	3,447,479
Employee benefit expenses	**17,114,892**	4,050,084
Depreciation of property and equipment	**219,523**	166,515
Amortization of intangible assets	**528,693**	194,441
Promotion and advertising expenses	**2,486,350**	1,921,590
Content fees to game developers and video providers	**1,629,144**	1,383,626
Provision for loan receivables	**607,180**	258,470
Consultancy and professional service fees	**903,076**	447,612
Cloud service, bandwidth and server custody fees	**1,725,218**	929,872
Office rental expenses	**529,497**	314,388
Warranty expenses	**1,068,252**	1,828,622
Auditor's remuneration	**51,803**	36,929

5 Investments accounted for using the equity method

	As of December 31, 2018 RMB'000	2017 RMB'000
Investments in associate accounted for using the equity method		
— Listed entities	**6,198,681**	386,490
— Unlisted entities	**2,440,557**	1,324,329
	8,639,238	1,710,819

	Year ended December 31, 2018 RMB'000	2017 RMB'000
At the beginning of the year	**1,710,819**	1,852,563
Additions (Note (a))	**7,289,333**	156,551
Disposal and transfer	**(100)**	(42,298)
Share of losses	**(614,920)**	(231,496)
Share of other comprehensive income/(loss)	**191,449**	(22,783)
Share of changes of other reserves	**62,657**	33,539
Dividends	**—**	(35,257)
At the end of the year	**8,639,238**	1,710,819

Note (a):

During the year ended December 31, 2018, several investments for which were previously accounted as long term investments measured at fair value through profit or loss have undergone initial public offering on the New York Stock Exchange and the Nasdaq Stock Exchange, following which they were designated as investment accounted for using the equity method due to the conversion of the preference shares into ordinary shares.

6 Income tax expenses

The income tax expenses of the Group during all the years presented are analyzed as follows:

	Year ended December 31,	
	2018	2017
	RMB'000	RMB'000
Current income tax	**1,414,602**	1,644,674
Deferred income tax	**(965,225)**	415,089
Income tax expenses	**449,377**	2,059,763

Income tax expenses 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

On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US dollar (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 years ended December 31, 2018 and 2017 has been retrospectively adjusted.

(a) Basic

Basic earnings or loss per share for the years ended December 31, 2018 and 2017 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,	
	2018	2017
	RMB'000	RMB'000
Net profit/(loss) attributable to the owners of the Company	**13,553,886**	(43,826,016)
Weighted average number of ordinary shares in issue (thousand shares)	**16,069,770**	9,758,173
Basic earnings/(loss) per share (expressed in RMB per share)	**0.843**	(4.491)

(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.

As the Group incurred losses for the year ended December 31, 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the year ended December 31, 2017 is same as basic loss per share of respective year.

For the year ended December 31, 2018, diluted earnings or 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 year ended December 31,2018.

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Net profit/(loss) attributable to the owners of the Company	**13,553,886**	(43,826,016)
Less: Fair value gain of Preferred Shares	**(12,514,279)**	—
Net profit/(loss) used to determine diluted loss per share	**1,039,607**	(43,826,016)
Weighted average number of ordinary shares in issue (thousand shares)	**16,069,770**	9,758,173
Adjustments for Preferred Shares (thousand shares)	**5,468,315**	—
Adjustments for RSUs and share options granted to employees (thousand shares)	**2,024,845**	—
Weighted average number of ordinary shares for calculation of diluted earnings/(loss) per share (thousand shares)	**23,562,930**	9,758,173
Diluted earnings/(loss) per share (expressed in RMB per share)	**0.044**	(4.491)

8 Investments

	As of December 31, 2018 RMB'000	2017 RMB'000
Current assets		
Short-term investments measured at		
— Amortized cost	**—**	800,000
— Fair value through profit or loss	**6,648,526**	4,488,076
	6,648,526	5,288,076
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	**7,629,929**	7,448,251
— Preferred shares investments	**11,006,279**	11,408,710
	18,636,208	18,856,961

Amounts recognized in profit or loss

	Year ended December 31, 2018 RMB'000	2017 RMB'000
Fair value changes on equity investments	**(1,386,967)**	2,569,974
Fair value changes on preferred shares investments	**5,793,800**	3,780,048
Fair value changes on short-term investments measured at fair value through profit or loss	**23,526**	21,076
	4,430,359	6,371,098

9 Trade receivables

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

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	**5,094,390**	5,099,590
3 to 6 months	**392,868**	302,354
6 months to 1 year	**116,279**	39,028
1 to 2 years	**16,630**	53,613
Over 2 years	**46,873**	31,742
	5,667,040	5,526,327
Less: allowance for impairment	**(68,597)**	(56,820)
	5,598,443	5,469,507

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

10 Inventories

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Raw materials	**7,343,118**	5,117,285
Finished goods	**19,112,105**	8,461,798
Work in progress	**2,068,834**	1,352,886
Spare parts	**1,156,825**	1,569,040
Others	**1,651,854**	510,061
	31,332,736	17,011,070
Less: provision for impairment	**(1,852,051)**	(668,142)
	29,480,685	16,342,928

11 Borrowings

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities	**2,752,815**	2,400,105
Fund raised through trusts	**—**	400,000
Secured borrowings	**1,260,941**	714,107
Unsecured borrowings	**3,842,387**	3,737,100
	7,856,143	7,251,312
Included in current liabilities		
Asset-backed securities	**586,282**	1,491,147
Fund raised through trusts	**648,390**	1,170,250
Pledged borrowings	**—**	729,404
Unsecured borrowings	**1,840,522**	160,000
	3,075,194	3,550,801

For the year ended December 31, 2018, the annual interest rate of the interest-bearing liabilities ranges from 2.22% to 9.00% per annum (2017: from 2.22% to 9.00%).

12 Convertible redeemable preferred shares

	RMB'000
At January 1, 2018	**161,451,203**
Changes in fair value	**(12,514,279)**
Currency translation differences	**2,163,584**
Conversion of preferred shares to ordinary shares	**(151,100,508)**
At December 31, 2018	**—**
At January 1, 2017	115,802,177
Issuance of Series F1 Preferred Shares	89,214
Changes in fair value	54,071,603
Currency translation differences	(8,511,791)
At December 31, 2017	161,451,203

13 Other non-current liabilities

	As of December 31,	
	2018	2017
	RMB'000	RMB'000
Investment from fund investors (Note (a))	**2,823,504**	—
Others	**21,355**	35,211
	2,844,859	35,211

Note (a): It represents the funds raised by the third party investors under the Hubei Fund (note 12(a)). 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. Hubei Fund has limited operation during the current period. 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.

14 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2018 and 2017, 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 December 31,	
	2018	2017
	RMB'000	RMB'000
Up to 3 months	**44,312,748**	32,859,302
3 to 6 months	**1,656,699**	936,690
6 months to 1 year	**266,623**	180,060
1 to 2 years	**50,350**	22,525
Over 2 years	**851**	4,754
	46,287,271	34,003,331

15 Events after the reporting period

The Company repurchased 6,140,000, 9,849,600 and 3,982,600 Class B ordinary shares of the Company on January 17, 2019, January 18, 2019 and January 22, 2019, representing approximately 0.026%, 0.041% and 0.017% of the issued total share capital of the Company as at the respective transaction days. The total considerations were HK$59,942,000, HK$100,000,000 and HK$39,990,000, respectively.

OTHER INFORMATION

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

In January 2019, the Company repurchased a total of 19,972,200 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 approximately HK$199,931,233. All the Shares Repurchased were subsequently cancelled on February 1, 2019. Particulars of the Shares Repurchased are as follows:

Date of Repurchase	No. of Shares Repurchased	Price paid per share Highest *(HK$)*	Price paid per share Lowest *(HK$)*	Aggregate Consideration *(HK$)*
January 17, 2019	6,140,000	9.79	9.74	59,941,940
January 18, 2019	9,849,600	10.20	10.08	99,999,996
January 22, 2019	3,982,600	10.06	10.00	39,989,297
Total	19,972,200			199,931,233

The number of Class B Shares in issue was reduced by 19,972,200 shares as a result of the cancellation accordingly. 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. A total of 5,591,700 Class A Shares were converted in Class B Shares on a one-to-one ratio on February 1, 2019, of which Lei Jun, through Smart Mobile Holdings Limited, converted 3,587,263 Class A Shares and Lin Bin, through Bin Lin Trust, converted 2,004,437 Class A Shares.

Save as disclosed above and the issuance of 201,486,000 Class B Shares on July 20, 2018 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated July 18, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period.

Compliance with the Corporate Governance Code

The Company was incorporated in the Cayman Islands on January 5, 2010 with limited liability, and the Class B Shares in the share capital of the Company were listed on the Main Board of the Stock Exchange on July 9, 2018 (the "**Listing Date**"). Accordingly, the principles and code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules have been applicable to the Company since the Listing Date.

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 CG Code, the Company has complied with all the code provisions set out in the CG Code throughout the period from the Listing Date to December 31, 2018.

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: 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. The Board considers that the balance of power and authority for the current arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of Chairman of the Board and Chief Executive Officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' dealings in the securities of the Company. The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company since the Listing Date.

Having made specific enquiries of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code throughout the period from the Listing Date to the date of this announcement.

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. The Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Dr. Chen Dongsheng, Mr. Koh Tuck Lye 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 Reporting Period. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the Auditor.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the Reporting Period have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement, and consequently no assurance has been expressed by the Auditor on this announcement.

Other Board Committees

In addition to the Audit Committee, the Company has also established a Nomination Committee, a Remuneration Committee and a Corporate Governance Committee.

Material Litigation

The Company was not involved in any material litigation or arbitration during the Reporting Period. Nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

Use of Proceeds from the Global Offering

The gross proceeds received by the Company from the Global Offering (as defined in the prospectus of the Company dated June 25, 2018), including full exercise of the over-allotment option, were approximately HK$27,811 million (equivalent to approximately RMB23,525 million), which will be utilized for the purposes as set out in the prospectus of the Company dated June 25, 2018.

Final Dividend

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

Events after the End of Reporting Period

Save as disclosed in this announcement, there was no other significant events that might affect the Group since the end of the Reporting Period.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, March 19, 2019

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Lei Jun as Chairman and Executive Director and Mr. Lin Bin as Executive Director, Mr. Koh Tuck Lye and Mr. Liu Qin as Non-executive Directors, and Dr. Chen Dongsheng, Dr. Lee Ka Kit and Mr. Wong Shun Tak as Independent Non-executive Directors.