



Stock Code : 1810

XIAOMI CORPORATION

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

2021 INTERIM REPORT

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

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

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

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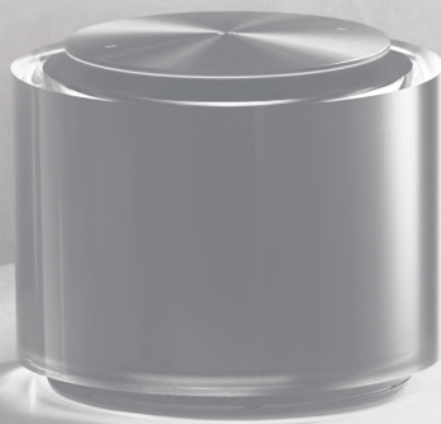
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We relentlessly build amazing products
with honest prices to let everyone in the world
enjoy a better life through innovative technology



CORPORATE INFORMATION

Board of Directors

Executive Directors

Lei Jun (雷軍) *(Chairman of the Board)*

Lin Bin (林斌) *(Vice Chairman of the Board)*

Liu De (劉德) (appointed to the Board with effect from March 24, 2021)

Chew Shou Zi (周受資) (resigned from the Board with effect from March 24, 2021)

Non-Executive Director

Liu Qin (劉芹)

Independent Non-Executive Directors

Chen Dongsheng (陳東升)

Wong Shun Tak (王舜德)

Tong Wai Cheung Timothy (唐偉章)

Audit Committee

Wong Shun Tak (王舜德) *(Chairman)*

Liu Qin (劉芹)

Chen Dongsheng (陳東升)

Remuneration Committee

Chen Dongsheng (陳東升) *(Chairman)*

Lei Jun (雷軍)

Wong Shun Tak (王舜德)

Nomination Committee

Tong Wai Cheung Timothy (唐偉章) *(Chairman)*

Lin Bin (林斌)

Wong Shun Tak (王舜德)

Corporate Governance Committee

Chen Dongsheng (陳東升) *(Chairman)*

Wong Shun Tak (王舜德)

Tong Wai Cheung Timothy (唐偉章)

Company Secretary

So Ka Man (蘇嘉敏)

Lin Steve (林冠男) (resigned with effect from February 26, 2021)

Chan Wing Ki (陳穎琪) (appointed with effect from February 26, 2021 and resigned with effect from April 30, 2021)

Authorized Representatives

Lin Bin (林斌)

So Ka Man (蘇嘉敏)

Auditor

PricewaterhouseCoopers

(Certified Public Accountants and Registered Public Interest Entity Auditor)

Registered Office

Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Head Office and Principal Place of Business in Mainland China

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

Principal Place of Business in Hong Kong

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

Hong Kong Legal Advisor

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

Compliance Advisor

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

Hong Kong Share Registrar

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

Principal Share Registrar and Transfer Office

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

Principal Banker

China Merchants Bank, Beijing Branch, Shouti Sub-branch

Stock Code

1810

Company Website

www.mi.com

KEY HIGHLIGHTS

	Unaudited		
	June 30, 2021	June 30, 2020	Year-over- year change
	[RMB in millions, unless specified]		
Revenue	164,671.2	103,240.0	59.5%
Gross profit	29,309.3	15,259.9	92.1%
Operating profit	18,883.4	7,736.2	144.1%
Profit before income tax	18,745.4	7,321.9	156.0%
Profit for the period	16,052.2	6,653.4	141.3%
Non-IFRS measure: Adjusted Net Profit	12,390.8	5,673.7	118.4%

XIAOMI

Six months ended June 30, 2021



Revenue

164.7
RMB billion



Adjusted net profit⁽¹⁾

12.4
RMB billion



MIUI MAU

453.8⁽²⁾
million



Connected IoT devices

374.5⁽³⁾
million units

XIAOMI

Year-on-year growth rate



Revenue

59.5%



Adjusted net profit⁽¹⁾

118.4%



MIUI MAU

32.1%



Connected IoT devices

34.0%

Notes:

(1) Non-IFRS measure

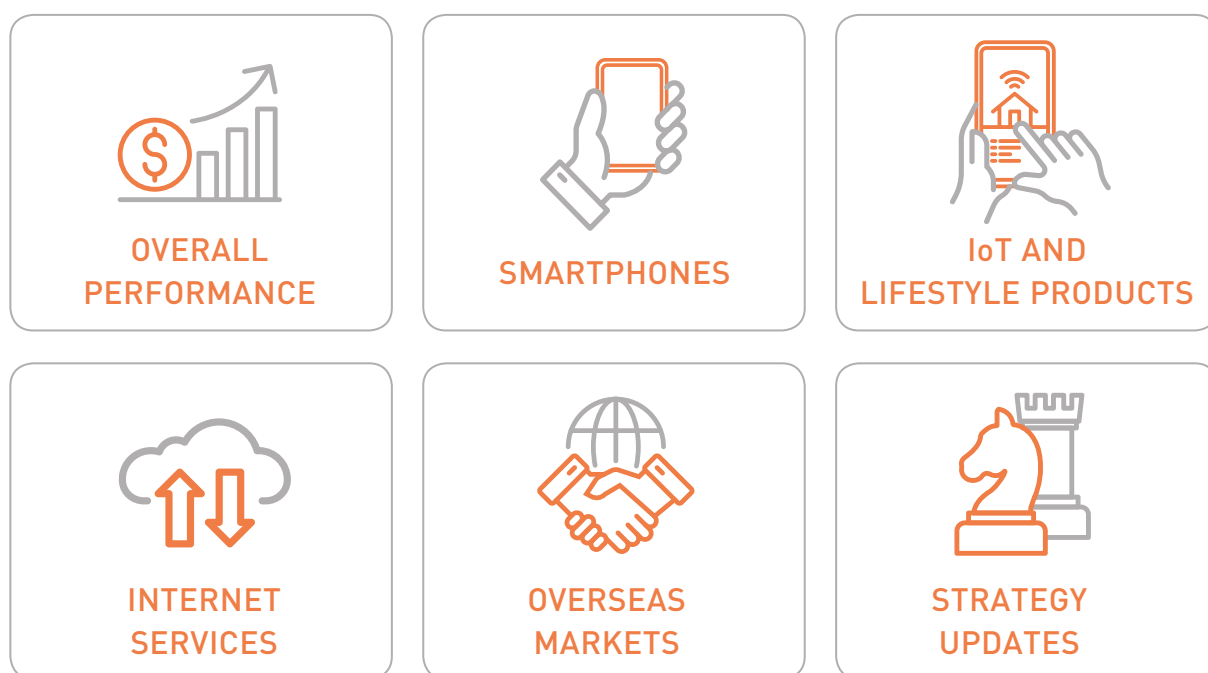
(2) MIUI MAU in June 2021

(3) Connected IoT devices as of June 30, 2021, excluding smartphones and laptops

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our interim report for the three and six months ended June 30, 2021 to the shareholders.



1. Overall Performance

In the first half of 2021, our total revenue amounted to RMB164.7 billion, representing an increase of 59.5% year-over-year; profit for the period was RMB16.1 billion, an increase of 141.3% year-over-year; adjusted net profit for the period was RMB12.4 billion, an increase of 118.4% year-over-year. In the second quarter of 2021, our total revenue amounted to RMB87.8 billion, representing an increase of 64.0% year-over-year; profit for the period was RMB8.3 billion, an increase of 83.9% year-over-year; adjusted net profit for the period was RMB6.3 billion, an increase of 87.4% year-over-year. Our total revenue and adjusted net profit both reached record highs in the quarter.

Our core “Smartphone × AIoT” strategy continued to underpin our outstanding performance. According to Canalys, in the second quarter of 2021, our global smartphone shipments ranking rose to No. 2 for the first time, with a market share of 16.7%. Our smartphone shipments in mainland China ranked among the top three, with a market share of 16.8%. Due to the strong growth in smartphone shipments, we achieved new record high

monthly active users (“MAU”) of MIUI both globally and in mainland China in June 2021, reaching 453.8 million and 124.0 million, respectively. At the same time, our AIoT platform continued to expand, with the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reaching 374.5 million as of June 30, 2021. In June 2021, the MAU of our AI assistant (“小愛同學”) exceeded the 100 million mark for the first time, reaching 102.0 million.

We further strengthened our online and offline channels in mainland China. During the 618 e-Commerce Shopping Festival in 2021, Xiaomi’s full spectrum of products gained widespread popularity, with total gross merchandise value from all sales channels exceeding RMB19.0 billion, representing an increase of 90% year-over-year. The sales volume of our smartphones ranked No. 1 among Android smartphones sold through Tmall, JD.com, and suning.com, and our IoT products achieved 158 No. 1 rankings in their respective categories across the same platforms. Meanwhile, we continued to expand our offline presence, with the total number of our retail stores in mainland China growing to more than 7,600 as of June 30, 2021. According to third party data, the offline market share of our smartphone shipments in mainland China grew to 7.8% in the second quarter of 2021 from 7.0% in the first quarter of 2021.

Our overseas business also maintained strong growth momentum. In the first half of 2021, our revenue from overseas markets reached RMB81.0 billion, representing an increase of 65.9% year-over-year. In the second quarter of 2021, our revenue from overseas markets amounted to RMB43.6 billion, reaching an all-time high and representing a year-over-year increase of 81.6%. According to Canalys, in terms of smartphone shipments, we ranked No. 1 in 22 markets worldwide and ranked No. 1 for the first time in Europe, with a market share of 28.5% in the second quarter of 2021.

We have never stopped exploring advanced and pioneering technologies since our inception. At our launch event on August 10, 2021, we debuted several new products, including *Xiaomi MIX 4*, our first smartphone with full-screen display, *Xiaomi Pad 5 Series*, *Xiaomi TV Master 77” OLED*, the high-fidelity smart speaker *Xiaomi Sound*, and *CyberDog*, our bio-inspired quadruped robot. In July 2021, we officially broke ground on the Xiaomi Smart Factory Phase II located in the Changping district of Beijing (“**Changping Smart Factory**”). This facility will build upon our R&D and production capabilities at our Xiaomi Smart Factory Phase I, located in the Yizhuang area of Beijing (“**Yizhuang Smart Factory**”), and marks an important step in Xiaomi’s development in the smart manufacturing industry.

Our achievements and brand have been globally recognized. August 2021 marked our third consecutive entry into Fortune Global 500 list, ranking 338th, advancing 84 spots from our ranking in 2020. In March 2021, we unveiled our new brand identity, and in June 2021, Xiaomi was included on the BrandZ™ Top 100 Most Valuable Global Brands list for the third consecutive year, with our ranking rising to 70th.

CHAIRMAN'S STATEMENT

2. Smartphones

Our smartphone business continued to exhibit significant growth in the first half of 2021. Our smartphone revenue amounted to RMB110.6 billion and our smartphone shipments reached 102.3 million units in the first half of 2021, representing a year-over-year increase of 78.5% and 77.8%, respectively. Smartphone revenue amounted to RMB59.1 billion in the second quarter of 2021, representing an increase of 86.8% year-over-year, and our global smartphone shipments reached 52.9 million units, representing an increase of 86.8% year-over-year. Both of our smartphone revenue and shipments reached record highs in the second quarter of 2021. According to Canalys, our global smartphone shipments ranked No. 2 for the first time, with a market share of 16.7% in the second quarter of 2021. Meanwhile, our smartphone shipments in mainland China also grew rapidly. According to Canalys, in the second quarter of 2021, our smartphone market share in mainland China rose to 16.8% from 10.3% in the second quarter of 2020, ranking third with a 35.1% year-over-year increase in smartphone shipments, the highest growth rate among major players in the market.

We continue to execute our dual-brand strategy. Under the Xiaomi brand, we remain focused on enriching our premium smartphone portfolio. Following the widespread popularity of *Xiaomi 11 Pro*, *Xiaomi 11 Ultra* and *Xiaomi MIX FOLD* in the first quarter of 2021, on August 10, we unveiled our first camera-under-panel full display smartphone *Xiaomi MIX 4*, wrapped with lightweight fine ceramic unibody. It supports our "Point to Connect" Ultra Wide Band (UWB) technology, and is the first smartphone in the market equipped with Qualcomm Snapdragon 888+ processor. According to third party data, in the second quarter of 2021, our smartphones in mainland China with prices between RMB3,000 and RMB4,000, RMB4,000 and RMB5,000, and above RMB5,000, witnessed a year-over-year net market share gain of 8.4, 4.1, and 3.6 percentage point, respectively. In the first half of 2021, the global shipments of our smartphones with retail prices at or above RMB3,000 in mainland China and EUR300 or equivalent in overseas markets exceeded 12 million units, surpassing the total of around 10 million units shipped in 2020.

Our Redmi brand continues to provide competitive products to our global users. As of April 30, 2021, accumulated global shipments of the Redmi Note Series surpassed 200 million units, reflecting increasing mass-market resonance of our Redmi brand and the quality of Redmi smartphones. Following the launch of the *Redmi K40* series, we unveiled the *Redmi Note 10* series in mainland China on May 26, 2021.

Looking forward, we will continue to execute our dual-brand strategy, boost investments in advanced technology, recruit and foster talent, upgrade channel capabilities, enhance our premium smartphone offerings and improve user experience.

3. IoT and lifestyle products

In the first half of 2021, our IoT and lifestyle products segment maintained its robust growth, with revenue increasing 38.0% year-over-year to RMB39.0 billion. In the second quarter of 2021, our IoT and lifestyle products segment revenue reached RMB20.7 billion, representing an increase of 35.9% year-over-year.

Global shipments of our smart TVs reached 5.2 million units in the first half of 2021 and surpassed 2.5 million units in the second quarter of 2021, maintaining our leading market position. According to All View Cloud (“AVC”), our TV shipments ranked No. 1 in mainland China for the 10th consecutive quarter and remained among the top five globally in the second quarter of 2021. In addition, we further expanded premium and ultra-large screen TV portfolio, including the *Xiaomi TV 6 Ultra Edition*, the *Xiaomi TV ES series*, *Xiaomi TV Master 77" OLED* and the *Xiaomi TV 6 OLED*, which have been well received by the market.

Following a number of new products introduced in the first quarter of 2021, including *Xiaomi Smart AC with Ventilation*, *Xiaomi Laptop Pro 15"*, and *Xiaomi Router AX9000*, on August 10, 2021, we launched the *Xiaomi Pad 5 Series* with features including our proprietary MIUI for Pad operating system, an 11-inch 2.5K ultra high performance LCD panel, and a Qualcomm Snapdragon 860/870 processor. We also released *Xiaomi Sound*, a high-fidelity smart speaker. Embedded with a Harman audio system and enabled with 360° omni-directional sound output, it delivers best-in-class sound quality. The *Xiaomi Sound* debut reflects Xiaomi's efforts in smart speaker products and technology advances in high-fidelity sound products. We also took another bold step in the exploration of futuristic technology with the debut of *CyberDog*. It is our first bio-inspired quadruped robotics product, and an open-source robot companion that developers can build upon.

In the second quarter of 2021, our IoT and lifestyle product segment also maintained its rapid growth trajectory in overseas markets. Revenue from our IoT and lifestyle products in overseas markets increased by 93.8% year-over-year in the quarter. Our electric scooters, smart TVs, smart bands, and smart watches maintained their widespread popularity in the overseas market.

Going forward, we will remain committed to our core “Smartphone × AIoT” strategy, working fervently to advance innovations in sophisticated and cutting-edge technologies across product categories. We will also continue enhancing connectivity between our smartphones and IoT products to deliver a seamless user experience across our range of high-quality products, bringing a better life to everyone in the world.

4. Internet services

In the first half of 2021, our internet services segment maintained its growth momentum with revenue increasing 15.2% year-over-year to RMB13.6 billion. In the second quarter of 2021, revenue from internet services amounted to RMB7.0 billion, reaching a record high and representing an increase of 19.1% year-over-year.

CHAIRMAN'S STATEMENT

Our global internet user base continued to expand rapidly and reached an all-time high in the second quarter of 2021. In June 2021, the MAU of MIUI increased 32.1% year-over-year to 453.8 million, with MAU in mainland China reaching 124.0 million, representing a year-over-year increase of 13.0% and a net gain of 5.3 million users from March 2021. In June 2021, the MAU of our global smart TV and *Xiaomi Box* increased over 34.0% year-over-year. As of June 30, 2021, our number of TV paid subscribers increased to 4.7 million, an increase of 17.1% year-over-year.

In the first half of 2021, our advertising revenue reached another record high of RMB8.4 billion, representing an increase of 46.2% year-over-year. Our gaming revenue in the first half of 2021 decreased by 20.6% year-over-year to RMB2.0 billion, due to an adjustment of our business terms with certain game publishers and the high base of last year. In the first half of 2021, revenue from other value-added services amounted to RMB3.2 billion, a decrease of 9.4% year-over-year, primarily due to our strengthened risk controls and continued management of the scale of our fintech business.

In the first half of 2021, our overseas internet services revenue amounted to RMB2.0 billion, representing an increase of 72.4% year-over-year. In the first half of 2021, our overseas internet services revenue accounted for 14.8% of the total internet services revenue. Overseas internet services revenue and its contribution to total internet services revenue both reached new highs. On one hand, we continued to expand our user base in key overseas markets. In June 2021, our MIUI MAU in Western Europe and Latin America grew over 60% and 125% year-over-year, respectively. On the other hand, we continued to strengthen our capabilities in providing internet services through broader and deeper collaborations with leading internet companies globally.

Looking forward, we are committed to providing diversified internet service offerings to our global user base and enhancing their smart living experiences.

5. Overseas markets

In the first half of 2021, we maintained our strong growth momentum in overseas markets, with revenue from overseas markets increasing 65.9% year-over-year to RMB81.0 billion. In the second quarter of 2021, we delivered record-breaking performance in major markets around the world. In the second quarter, our revenue from overseas markets increased by 81.6% year-over-year to RMB43.6 billion, reaching a record high and accounting for 49.7% of total revenue.

According to Canalsys, our market share in the second quarter ranked among the top five in 65 markets globally and No. 1 in 22 markets.

We continued to improve our competitive advantages in key markets. According to Canalsys, in the second quarter of 2021, we ranked No. 1 in Europe for the first time with a market share of 28.5%. In Western Europe, our smartphone market share reached 22.2% and ranked among the top three; and in Central and Eastern

Europe, our 36.4% market share ranked No. 1 for the 3rd consecutive quarter. We ranked No. 1 in Spain for the 6th consecutive quarter with a market share of 41.2%. In Italy and France, we ranked No. 1 for the first time, with a market share of 35.0% and 29.7%, respectively. We also remained among the top three in Germany with a market share of 15.2%. According to Canalys, we have been ranked No. 1 in India for the 15th consecutive quarter in the second quarter of 2021.

Our high-quality products also gained widespread popularity in emerging markets with smartphone shipments in those regions witnessing rapid growth. According to Canalys, in the second quarter of 2021, our smartphone shipments in Latin America grew by 324.4% year-over-year and ranked among the top three. Meanwhile, our market share in the Middle East and Africa grew to 20.9% and 8.5%, respectively. Furthermore, we delivered outstanding performance in Southeast Asia. We ranked No. 1 in Indonesia and our smartphone market share reached 28.2% in the second quarter of 2021.

In an unwavering effort to strengthen our channel capabilities in overseas markets, we consistently strive to improve our compliance framework and operational efficiency. In the first half of 2021, we sold nearly 12 million smartphones via carrier channels in overseas markets, excluding India, representing an increase of over 300% year-over-year. According to Canalys, our smartphone market share in Western Europe carrier channels increased to 14.2% in the second quarter of 2021 from 11.3% in the first quarter of 2021. We also continued to leverage our online channels overseas. In the first half of 2021, we sold more than 10 million smartphones via online channels in overseas markets, excluding India, representing an increase of over 60% year-over-year.

6. Strategy updates

Smartphone × AIoT

As of June 30, 2021, the number of connected IoT devices (excluding smartphones and laptops) on our AIoT platform reached 374.5 million units, representing a year-over-year increase of 34.0%. The number of users with five or more devices connected to our AIoT platform (excluding smartphones and laptops) reached 7.4 million, representing a year-over-year increase of 44.5%. In June 2021, the MAU of our AI Assistant (“小愛同學”) exceeded the 100 million mark for the first time, reaching 102.0 million, and the MAU of our Mi Home App grew to 56.5 million, representing a year-over-year increase of 38.6%.

On August 10, 2021, we launched several new products that supported our “Point to Connect” UWB technology, including *Xiaomi MIX 4*, *Xiaomi Sound* and *Xiaomi TV Master 77” OLED*. With the UWB technology, users can point their smartphones to Xiaomi’s compatible IoT products and immediately connect the smartphone’s contents to these IoT products, enhancing user experience and user stickiness between smartphones and our IoT products.

CHAIRMAN'S STATEMENT

New Brand Identity

In March 2021, we unveiled our upgraded brand identity including our new logo, setting forth on our new journey with a refreshed image as we embrace the next decade. Going forward, we will further strengthen our brand promotion efforts and elevate brand awareness across the globe.

Investment in Technology

We remain steadfast in our pursuit of technological advancement which strengthens the backbone of our business. In the first half of 2021, we recorded RMB6.1 billion in research and development expenses, representing a year-over-year increase of 58.7%. In the second quarter of 2021, we recorded RMB3.1 billion in research and development expenses, representing a year-over-year increase of 56.5%.

In the first half of 2021, we continued to bring the most advanced technology to our products. In March 2021, we debuted our first proprietary Image Signal Processor Surge C1 on *Xiaomi MIX FOLD*. Embedded in the new *Xiaomi MIX FOLD*, Surge C1 enables enhanced auto focus accuracy, auto exposure and auto white balancing, boasting breakthrough achievements in imaging technology. *Xiaomi MIX FOLD* also features the first-ever liquid lens in a smartphone, replacing the traditional optical lens with transparent fluid wrapped in film that enables exceptional clarity in telephoto as well as ultra-close-range imaging. In April 2021, we debuted the *Xiaomi 11 Ultra* with innovative battery technology featuring a silicon-oxygen anode battery and new three-phase cooling technology, which enables elevated endurance and super-fast charging capabilities, and improves battery performance stability. In August 2021, we unveiled our first camera-under-panel full display smartphone, *Xiaomi MIX 4*, which also supports our "Point to Connect" UWB technology. Also in August, we debuted several new IoT products, including *Xiaomi Pad 5 Series*, *Xiaomi TV Master 77" OLED*, the high-fidelity smart speaker *Xiaomi Sound*, and *CyberDog*, our bio-inspired quadruped robot. These innovations are testaments to our continuous efforts to explore and push the boundaries of technological innovations.

In July 2021, we officially broke ground on the Changping Smart Factory located in the Changping district of Beijing. The facility will build upon our R&D and production capabilities at our Yizhuang Smart Factory. We aim to have the Changping Smart Factory support annual production capacity of up to 10 million premium smartphones. We believe that our smart factories will leverage our cutting-edge technologies and demonstrate transformative efficiency gains, further hastening the efficiency revolution in China's manufacturing industry.

Smart EV Business

On March 30, 2021, we announced our plan to establish a wholly-owned subsidiary to manage our smart electric vehicle ("**Smart EV**") business. The initial phase of investment will be RMB10 billion, with the total investment amount over the course of the next 10 years estimated to be USD10 billion. Mr. Lei Jun, the Chief Executive Officer of the Group, will concurrently serve as the Chief Executive Officer of the smart electric vehicle business.

On August 25, 2021, we announced the acquisition of entire shareholding in Deepmotion Tech Limited (“**Deepmotion**”), an autonomous driving technology company focusing on providing full software stack solutions including perception, localization, planning and control for advanced driver-assistance system and automated driving applications. The total consideration of the acquisition is approximately US\$77.37 million. We hope that the technology and research and development capabilities of Deepmotion can enhance the technological competitiveness of our smart electric vehicle business.

On September 1, 2021, we announced that Xiaomi EV Company Limited has completed business registration. Mr. Lei Jun, Chief Executive Officer of Xiaomi, is the legal representative of Xiaomi EV Company Limited. The official registration marks a key milestone of our much anticipated Smart EV initiative.

We hope to offer quality smart electric vehicles to let everyone in the world enjoy smart living anytime, anywhere. Our broad user base, extensive experience in integrating software and hardware, our substantial investment in key technologies and resources across the value chain position us well to become a successful player in the Smart EV space.

Talent Development

Since our inception, we have always attached great importance to talent development and motivation. In July 2021, we announced two separate award grants. On July 2, we granted equity awards to selected groups of young engineers, graduate recruits, and employees in critical positions, as well as outstanding engineers recognized by the Xiaomi annual technology awards. On July 5, we granted new equity awards to 122 technology specialists, middle and senior management and recipients of our New 10-year Entrepreneurship Program. As we look to Xiaomi’s next decade, we intend to appoint and foster young executive managerial talent, rewarding them with entrepreneurial incentives to motivate them to forge ahead at Xiaomi with an entrepreneurial spirit.

ESG

We are committed to fulfilling our social responsibilities to promote sustainable development through environmental, social and corporate governance best practices. On July 14, 2021, we published our 2020 Sustainability Report, outlining our approaches and practices on sustainability initiatives such as circular economy, accessibility and renewable energy. In the same month, we issued our inaugural 30-year US\$400 million green bond. The proceeds of the green bond issuance will be used in eligible green projects under the “Green Finance Framework”, including clean transportation, green building, energy efficiency, environment efficiency, and developing circular economy products and relevant manufacturing technologies and processes, demonstrating our determination towards investments in green and sustainable economy.

CHAIRMAN'S STATEMENT

In addition, in the wake of recent natural disasters caused by extreme climate conditions in China and around the world, we undertook corporate initiatives and social responsibilities for public welfare. Together with the Xiaomi Foundation, we acted quickly and provided assistance to those in disaster-stricken places in Henan Province of China and in Germany.

Data Security and Privacy

We firmly believe that cybersecurity compliance and user trust are vital for our future development. Since establishing the Xiaomi Security and Privacy Committee in 2014, we have received the TrustArc privacy certification, started preparation work for the European Union General Data Protection Regulation (GDPR) compliance assessment with the evaluation of third-party consulting companies completed, and earned three international ISO security and privacy certifications in 2019. In June 2021, we released the 2020 MIUI Security and Privacy White Paper, the third edition of this publication. The 2020 white paper highlighted our privacy practices using input tools and stealth mode and provided details regarding our brand-new Xiaomi Trust Center. In the same month, we also held our first Security and Privacy Awareness Month at the Xiaomi Science and Technology Park. During this 30-day event, we hosted six privacy-themed activities and our interactive exhibitions attracted 12,000 visits, raising our employees' awareness of information security and privacy protection.

Cash Resources and Investment

As of June 30, 2021, our cash resources reached RMB111.6 billion.

As of June 30, 2021, we had invested in more than 330 companies with an aggregate book value of RMB57.9 billion, an increase of 57.3% year-over-year. We recorded a net income after tax from the disposal of investments in the first half of 2021 and in the second quarter of 2021 of RMB1.5 billion and RMB1.1 billion, respectively. As of June 30, 2021, the total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on June 30, 2021 (ii) book value of our stakes in unlisted investee companies accounted for using the equity method and (iii) book value of long-term investments measured at fair value through profit or loss) reached RMB74.5 billion.

Lei Jun

Chairman

Hong Kong

August 25, 2021

MANAGEMENT DISCUSSION AND ANALYSIS

First Half of 2021 Compared to First Half of 2020

The following table sets forth the comparative figures for the first half of 2021 and 2020:

	Unaudited	
	June 30, 2021	June 30, 2020
	Six months ended	
	(RMB in millions)	
Revenue	164,671.2	103,240.0
Cost of sales	(135,361.9)	(87,980.1)
Gross profit	29,309.3	15,259.9
Selling and marketing expenses	(9,844.1)	(5,848.5)
Administrative expenses	(2,138.0)	(1,618.0)
Research and development expenses	(6,076.2)	(3,829.3)
Fair value changes on investments measured at fair value through profit or loss	6,228.6	2,714.0
Share of net (losses)/profits of investments accounted for using the equity method	(17.2)	1,023.4
Other income	386.7	256.8
Other gains/(losses), net	1,034.3	(222.1)
Operating profit	18,883.4	7,736.2
Finance costs, net	(138.0)	(414.3)
Profit before income tax	18,745.4	7,321.9
Income tax expenses	(2,693.2)	(668.5)
Profit for the period	16,052.2	6,653.4
Non-IFRS measure: Adjusted net profit	12,390.8	5,673.7

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 59.5% to RMB164.7 billion in the first half of 2021 on a year-over-year basis. The following table sets forth our revenue by line of business in the first half of 2021 and the first half of 2020.

	Unaudited			
	Six months ended		Six months ended	
	June 30, 2021		June 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	110,580.0	67.2%	61,952.3	60.0%
IoT and lifestyle products	38,978.0	23.7%	28,237.1	27.4%
Internet services	13,604.3	8.3%	11,808.3	11.4%
Others	1,508.9	0.8%	1,242.3	1.2%
Total revenue	164,671.2	100.0%	103,240.0	100.0%

Smartphones

Revenue from our smartphones segment increased by 78.5% from RMB62.0 billion in the first half of 2020 to RMB110.6 billion in the first half of 2021. We sold 102.3 million smartphone units in the first half of 2021, compared to 57.5 million units in the first half of 2020. The ASP of our smartphones was RMB1,080.7 per unit in the first half of 2021, compared with RMB1,076.5 per unit in the first half of 2020. The increase in ASP was primarily due to the increase in sales of our premium smartphones.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 38.0% from RMB28.2 billion in the first half of 2020 to RMB39.0 billion in first half of 2021, primarily due to the growth in sales of certain IoT products, such as smart TVs, robot vacuum cleaners and electric scooters. Revenue from smart TVs and laptops increased by 23.4% from RMB9.4 billion in the first half of 2020 to RMB11.6 billion in the first half of 2021, primarily due to the further expanded premium and ultra-large screen TV portfolio.

Internet services

Revenue from our internet services segment increased by 15.2% from RMB11.8 billion in the first half of 2020 to RMB13.6 billion in the first half of 2021, primarily due to the increase in revenue from advertising business, offset by decrease in revenue from gaming and other value-added services.

Others

Other revenue increased by 21.5% from RMB1.2 billion in the first half of 2020 to RMB1.5 billion in the first half of 2021, primarily due to the increase in revenue from sale of materials as well as the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 53.9% from RMB88.0 billion in the first half of 2020 to RMB135.4 billion in the first half of 2021. The following table sets forth our cost of sales by line of business in the first half of 2021 and the first half of 2020:

	Unaudited Six months ended			
	June 30, 2021		June 30, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	96,952.9	58.9%	57,208.9	55.4%
IoT and lifestyle products	33,583.0	20.4%	24,758.1	24.0%
Internet services	3,635.8	2.2%	4,876.6	4.7%
Others	1,190.2	0.7%	1,136.4	1.1%
Total cost of sales	135,361.9	82.2%	87,980.0	85.2%

MANAGEMENT DISCUSSION AND ANALYSIS

Smartphones

Cost of sales related to our smartphones segment increased by 69.5% from RMB57.2 billion in the first half of 2020 to RMB97.0 billion in the first half of 2021, due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 35.6% from RMB24.8 billion in the first half of 2020 to RMB33.6 billion in the first half of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 25.4% from RMB4.9 billion in the first half of 2020 to RMB3.6 billion in the first half of 2021, primarily due to the decreased cost of our fintech business.

Others

Cost of sales related to our others segment increased by 4.7% from RMB1.1 billion in the first half of 2020 to RMB1.2 billion in the first half of 2021, due to the increase in cost from sale of materials as well as the installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 92.1% from RMB15.3 billion in the first half of 2020 to RMB29.3 billion in the first half of 2021.

The gross profit margin from our smartphones segment increased from 7.7% in the first half of 2020 to 12.3% in the first half of 2021, mainly due to improved product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 12.3% in the first half of 2020 to 13.8% in the first half of 2021, mainly due to higher revenue contribution from IoT products with higher gross profit margin.

The gross profit margin from our internet services segment increased from 58.7% in the first half of 2020 to 73.3% in the first half of 2021, mainly due to the higher revenue contribution of our advertising business and increased gross profit margin of our advertising and fintech businesses.

As a result of the foregoing, our gross profit margin increased from 14.8% in the first half of 2020 to 17.8% in the first half of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 68.3% from RMB5.8 billion in the first half of 2020 to RMB9.8 billion in the first half of 2021, primarily due to the increase in promotion and advertising expenses and packaging and transportation expenses.

Promotion and advertising expenses increased by 67.6% year-over-year to RMB3.2 billion, primarily due to our elevated marketing efforts to increase brand awareness and our promotion for premium smartphones. The packaging and transportation expenses increased by 72.0% year-over-year to RMB2.5 billion, primarily due to our strong momentum in overseas markets.

Administrative Expenses

Our administrative expenses increased by 32.1% from RMB1.6 billion in the first half of 2020 to RMB2.1 billion in the first half of 2021, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 58.7% from RMB3.8 billion in the first half of 2020 to RMB6.1 billion in the first half of 2021, primarily due to the increase in compensation for research and development personnel and the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss increased from a gain of RMB2.7 billion in the first half of 2020 to a gain of RMB6.2 billion in the first half of 2021, primarily due to the higher fair value gains of equity and preferred share investments in the first half of 2021.

Share of Net (Losses)/Profits of Investments Accounted for Using the Equity Method

Our share of net (losses)/profits of investments accounted for using the equity method changed from a net gain of RMB1,023.4 million in the first half year of 2020 to a net loss of RMB17.2 million in the first half of 2021, primarily due to the share of loss of certain investees in the first half of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Income

Our other income increased by 50.6% from RMB256.8 million in the first half of 2020 to RMB386.7 million in the first half of 2021, primarily due to the increase of dividend income received from our investee companies.

Other Gains/(Losses), Net

Our other net gains were RMB1,034.3 million in the first half of 2021, compared with net losses of RMB222.1 million in the first half of 2020. This is mainly due to the gains on disposal from our investee companies and the decrease of foreign exchange losses in the first half of 2021.

Finance Costs, Net

Our net finance costs decreased by 66.7% from RMB414.3 million in the first half of 2020 to RMB138.0 million in the first half of 2021, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 302.9% from RMB668.5 million in the first half of 2020 to RMB2,693.2 million in the first half of 2021, primarily due to the increase of taxable income in the first half of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB16.1 billion in the first half of 2021, compared with a profit of RMB6.7 billion in the first half of 2020.

Second Quarter of 2021 Compared to Second Quarter of 2020

The following table sets forth the comparative figures for the second quarter of 2021 and the second quarter of 2020:

	Unaudited	
	Three months ended	
	June 30, 2021	June 30, 2020
	(RMB in millions)	
Revenue	87,789.0	53,537.8
Cost of sales	(72,640.9)	(45,836.4)
Gross profit	15,148.1	7,701.4
Selling and marketing expenses	(5,680.7)	(3,223.7)
Administrative expenses	(1,150.3)	(836.4)
Research and development expenses	(3,064.2)	(1,958.3)
Fair value changes on investments measured at fair value through profit or loss	4,165.4	2,366.2
Share of net (losses)/profits of investments accounted for using the equity method	(26.2)	892.6
Other income	234.6	183.1
Other gains, net	1,099.0	288.1
Operating profit	10,725.7	5,413.0
Finance costs, net	(1,047.2)	(545.2)
Profit before income tax	9,678.5	4,867.8
Income tax expenses	(1,415.2)	(374.3)
Profit for the period	8,263.3	4,493.5
Non-IFRS measure: Adjusted net profit	6,321.5	3,373.2

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 64.0% to RMB87.8 billion in the second quarter of 2021 on a year-over-year basis. The following table sets forth our revenue by line of business in the second quarter of 2021 and the second quarter of 2020.

	Unaudited			
	Three months ended		June 30, 2020	
	June 30, 2021	% of total	June 30, 2020	% of total
	Amount	revenue	Amount	revenue
	(RMB in millions, unless specified)			
Smartphones	59,089.0	67.3%	31,627.5	59.1%
IoT and lifestyle products	20,734.7	23.6%	15,252.9	28.5%
Internet services	7,033.5	8.0%	5,907.6	11.0%
Others	931.8	1.1%	749.8	1.4%
Total revenue	87,789.0	100.0%	53,537.8	100.0%

Smartphones

Revenue from our smartphones segment increased by 86.8% from RMB31.6 billion in the second quarter of 2020 to RMB59.1 billion in the second quarter of 2021. We sold 52.9 million smartphone units in the second quarter of 2021, compared to 28.3 million units in the second quarter of 2020. The ASP of our smartphones was RMB1,116.7 per unit in the second quarter of 2021, compared with RMB1,116.3 per unit in the second quarter of 2020.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 35.9% from RMB15.3 billion in the second quarter of 2020 to RMB20.7 billion in the second quarter of 2021. The increase in revenue was primarily due to the strong growth in sales of certain IoT products, such as smart TVs, air conditioners and electric scooters. Revenue from smart TVs and laptops increased by 25.0% from RMB4.8 billion in the second quarter of 2020 to RMB6.0 billion in the second quarter of 2021.

Internet services

Revenue from our internet services segment increased by 19.1% from RMB5.9 billion in the second quarter of 2020 to RMB7.0 billion in the second quarter of 2021, primarily due to the growth in revenue from advertising business offset by decline in our gaming and other value-added services. Our global MAU of MIUI reached 453.8 million in June 2021, an increase of 32.1% from 343.5 million in June 2020.

Others

Other revenue increased by 24.3% from RMB749.8 million in the second quarter of 2020 to RMB931.8 million in the second quarter of 2021, primarily due to the increase in revenue from the installation services provided for certain IoT products as well as sale of materials.

Cost of Sales

Our cost of sales increased by 58.5% from RMB45.8 billion in the second quarter of 2020 to RMB72.6 billion in the second quarter of 2021. The following table sets forth our cost of sales by line of business in the second quarter of 2021 and the second quarter of 2020:

	Unaudited			
	Three months ended		June 30, 2020	
	June 30, 2021	% of total	June 30, 2020	% of total
	Amount	revenue	Amount	revenue
	(RMB in millions, unless specified)			
Smartphones	52,095.5	59.3%	29,336.6	54.8%
IoT and lifestyle products	17,992.3	20.5%	13,515.2	25.2%
Internet services	1,819.7	2.1%	2,347.5	4.4%
Others	733.4	0.8%	637.1	1.2%
Total cost of sales	72,640.9	82.7%	45,836.4	85.6%

Smartphones

Cost of sales related to our smartphones segment increased by 77.6% from RMB29.3 billion in the second quarter of 2020 to RMB52.1 billion in the second quarter of 2021, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 33.1% from RMB13.5 billion in the second quarter of 2020 to RMB18.0 billion in the second quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 22.5% from RMB2.3 billion in the second quarter of 2020 to RMB1.8 billion in the second quarter of 2021, primarily due to the decreased cost of our fintech business.

MANAGEMENT DISCUSSION AND ANALYSIS

Others

Cost of sales related to our others segment increased by 15.1% from RMB637.1 million in the second quarter of 2020 to RMB733.4 million in the second quarter of 2021, primarily due to the increase in cost from the installation services provided for certain IoT products as well as sale of materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 96.7% from RMB7.7 billion in the second quarter of 2020 to RMB15.1 billion in the second quarter of 2021.

The gross profit margin from our smartphones segment increased from 7.2% in the second quarter of 2020 to 11.8% in the second quarter of 2021, mainly due to the improved product mix.

The gross profit margin from our IoT and lifestyle products segment increased from 11.4% in the second quarter of 2020 to 13.2% in the second quarter of 2021, mainly due to the strong growth in our certain IoT products with higher gross profit margin.

The gross profit margin from our internet services segment increased from 60.3% in the second quarter of 2020 to 74.1% in the second quarter of 2021, mainly due to higher revenue contribution from our advertising business, and the increase of gross profit margin from our fintech business and advertising business.

As a result of the foregoing, our gross profit margin increased from 14.4% in the second quarter of 2020 to 17.3% in the second quarter of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 76.2% from RMB3.2 billion in the second quarter of 2020 to RMB5.7 billion in the second quarter of 2021, primarily due to the increase in promotion and advertising expenses and packing and transportation expenses.

Promotion and advertising expenses increased 95.2% from RMB1.1 billion in the second quarter of 2020 to RMB2.1 billion in the second quarter of 2021, primarily due to our elevated marketing efforts to increase brand awareness. Packaging and transportation expenses increased by 59.5% from RMB0.9 billion in the second quarter of 2020 to RMB1.4 billion in the second quarter of 2021, primarily due to the expansion of our overseas business.

Administrative Expenses

Our administrative expenses increased by 37.5% from RMB0.8 billion in the second quarter of 2020 to RMB1.2 billion in the second quarter of 2021, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 56.5% from RMB2.0 billion in the second quarter of 2020 to RMB3.1 billion in the second quarter of 2021, primarily due to the increase in compensation for research and development personnel and the expansion of our research projects.

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

Our fair value changes on investments measured at fair value through profit or loss increased from a gain of RMB2.4 billion in the second quarter of 2020 to RMB4.2 billion in the second quarter of 2021, primarily due to the higher fair value gains of equity and preferred share investments in the second quarter of 2021.

Share of Net (Losses)/Profits of Investments Accounted for Using the Equity Method

Our share of net (losses)/profits of investments accounted for using the equity method changed from a net gain of RMB892.6 million in the second quarter of 2020 to a net loss of RMB26.2 million in the second quarter of 2021, primarily due to the share of loss of certain investees in the second quarter of 2021.

Other Income

Our other income increased by 28.2% from RMB183.1 million in the second quarter of 2020 to RMB234.6 million in the second quarter of 2021, primarily due to the increased dividend income received from our investee companies.

Other Gains, Net

Our other net gains increased by 281.5% from RMB288.1 million in the second quarter of 2020 to RMB1,099.0 million in the second quarter of 2021. This was mainly due to the gains on disposal from our investee companies in the second quarter of 2021.

Finance Costs, Net

Our net finance costs increased by 92.1% from RMB545.2 million in the second quarter of 2020 to RMB1,047.2 million in the second quarter of 2021, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 278.1% from RMB374.3 million in the second quarter of 2020 to RMB1,415.2 million in the second quarter of 2021, primarily due to the increase of taxable income in the second quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB8.3 billion in the second quarter of 2021, compared with a profit of RMB4.5 billion in the second quarter of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2021 Compared to First Quarter of 2021

The following table sets forth the comparative figures for the second quarter of 2021 and the first quarter of 2021:

	Unaudited	
	Three months ended June 30, 2021	March 31, 2021
	(RMB in millions)	
Revenue	87,789.0	76,882.2
Cost of sales	(72,640.9)	(62,720.9)
Gross profit	15,148.1	14,161.3
Selling and marketing expenses	(5,680.7)	(4,163.5)
Administrative expenses	(1,150.3)	(987.7)
Research and development expenses	(3,064.2)	(3,012.0)
Fair value changes on investments measured at fair value through profit or loss	4,165.4	2,063.2
Share of net (losses)/profits of investments accounted for using the equity method	(26.2)	9.0
Other income	234.6	152.1
Other gains/(losses), net	1,099.0	(64.7)
Operating profit	10,725.7	8,157.7
Finance (costs)/income, net	(1,047.2)	909.2
Profit before income tax	9,678.5	9,066.9
Income tax expenses	(1,415.2)	(1,278.0)
Profit for the period	8,263.3	7,788.9
Non-IFRS measure: Adjusted net profit	6,321.5	6,069.3

Revenue

Revenue increased by 14.2% to RMB87.8 billion in the second quarter of 2021 on a quarter-over-quarter basis. The following table sets forth our revenue by line of business in the second quarter of 2021 and the first quarter of 2021.

	Unaudited			
	Three months ended		Three months ended	
	June 30, 2021		March 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	59,089.0	67.3%	51,491.0	67.0%
IoT and lifestyle products	20,734.7	23.6%	18,243.3	23.7%
Internet services	7,033.5	8.0%	6,570.8	8.5%
Others	931.8	1.1%	577.1	0.8%
Total revenue	87,789.0	100.0%	76,882.2	100.0%

Smartphones

Revenue from our smartphones segment increased by 14.8% from RMB51.5 billion in the first quarter of 2021 to RMB59.1 billion in the second quarter of 2021. We sold 52.9 million smartphone units in the second quarter of 2021, compared to 49.4 million units in the first quarter of 2021. The ASP of our smartphones was RMB1,116.7 per unit in the second quarter of 2021, compared with RMB1,042.1 per unit in the first quarter of 2021. The increase in ASP was primarily due to the increase in sales of our premium smartphones.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 13.7% from RMB18.2 billion in the first quarter of 2021 to RMB20.7 billion in the second quarter of 2021, primarily due to the growth in sales of certain IoT products, such as air conditioners, laptops and smart bands. Revenue from smart TVs and laptops increased by 7.1% from RMB5.6 billion in the first quarter of 2021 to RMB6.0 billion in the second quarter of 2021, primarily due to the launch of new laptop products.

Internet services

Revenue from our internet services segment increased by 7.0% from RMB6.6 billion in the first quarter of 2021 to RMB7.0 billion in the second quarter of 2021, primarily due to the increase in revenue from advertising business, offset by decrease in revenue from gaming business.

MANAGEMENT DISCUSSION AND ANALYSIS

Others

Other revenue increased by 61.5% from RMB577.1 million in the first quarter of 2021 to RMB931.8 million in the second quarter of 2021, primarily due to the increase in revenue from sale of materials as well as the installation services provided for certain IoT products.

Cost of Sales

Our cost of sales increased by 15.8% from RMB62.7 billion in the first quarter of 2021 to RMB72.6 billion in the second quarter of 2021. The following table sets forth our cost of sales by line of business in the second quarter of 2021 and the first quarter of 2021:

	Unaudited			
	Three months ended		Three months ended	
	June 30, 2021		March 31, 2021	
	Amount	% of total revenue	Amount	% of total revenue
(RMB in millions, unless specified)				
Smartphones	52,095.5	59.3%	44,857.4	58.3%
IoT and lifestyle products	17,992.3	20.5%	15,590.7	20.3%
Internet services	1,819.7	2.1%	1,816.1	2.4%
Others	733.4	0.8%	456.7	0.6%
Total cost of sales	72,640.9	82.7%	62,720.9	81.6%

Smartphones

Cost of sales related to our smartphones segment increased by 16.1% from RMB44.9 billion in the first quarter of 2021 to RMB52.1 billion in the second quarter of 2021, primarily due to the increased sales of our smartphones.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 15.4% from RMB15.6 billion in the first quarter of 2021 to RMB18.0 billion in the second quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment remained stable at RMB1.8 billion in the second quarter of 2021 compared to the first quarter of 2021.

Others

Cost of sales related to our others segment increased by 60.6% from RMB456.7 million in the first quarter of 2021 to RMB733.4 million in the second quarter of 2021, due to the increase in cost from sale of materials as well as the installation services provided for certain IoT products.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 7.0% from RMB14.2 billion in the first quarter of 2021 to RMB15.1 billion in the second quarter of 2021. The gross profit margin from our smartphones segment decreased from 12.9% in the first quarter of 2021 to 11.8% in the second quarter of 2021, mainly due to enhanced promotional efforts during 618 e-Commerce Shopping Festival in mainland China in the second quarter of 2021.

The gross profit margin from our IoT and lifestyle products segment decreased from 14.5% in the first quarter of 2021 to 13.2% in the second quarter of 2021, mainly due to enhanced promotional efforts during 618 e-Commerce Shopping Festival in mainland China in the second quarter of 2021.

The gross profit margin from our internet services segment increased from 72.4% in the first quarter of 2021 to 74.1% in the second quarter of 2021.

As a result of the foregoing, our gross profit margin decreased from 18.4% in the first quarter of 2021 to 17.3% in the second quarter of 2021.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 36.4% from RMB4.2 billion in the first quarter of 2021 to RMB5.7 billion in the second quarter of 2021, primarily due to the increase in promotion and advertising expenses and packaging and transportation expenses.

Promotion and advertising expenses increased by 84.2% quarter-over-quarter to RMB2.1 billion, primarily due to our elevated marketing efforts for 618 e-Commerce Shopping Festival in mainland China and increased brand awareness in overseas markets. The packaging and transportation expenses increased by 24.9% quarter-over-quarter to RMB1.4 billion, primarily due to our strong growth momentum in overseas markets and enhanced promotional efforts for 618 e-Commerce Shopping Festival in mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Our administrative expenses increased by 16.5% from RMB1.0 billion in the first quarter of 2021 to RMB1.2 billion in the second quarter of 2021, primarily due to the increase in compensation for administrative personnel.

Research and Development Expenses

Our research and development expenses increased by 1.7% from RMB3.0 billion in the first quarter of 2021 to RMB3.1 billion in the second quarter of 2021.

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 RMB2.1 billion in the first quarter of 2021 to a gain of RMB4.2 billion in the second quarter of 2021, primarily due to the higher fair value gains of equity and preferred share investments in the second quarter of 2021.

Share of Net (Losses)/Profits of Investments Accounted for Using the Equity Method

Our share of net (losses)/ profits of investments accounted for using the equity method changed from a net gain of RMB9.0 million in the first quarter of 2021 to a net loss of RMB26.2 million in the second quarter of 2021, primarily due to the share of loss of certain investees in the second quarter of 2021.

Other Income

Our other income increased by 54.3% from RMB152.1 million in the first quarter of 2021 to RMB234.6 million in the second quarter of 2021, primarily due to the increase of dividend income received from our investee companies.

Other Gains/(Losses), Net

Our other net gains were RMB1,099.0 million in the second quarter of 2021, compared with net losses of RMB64.7 million in the first quarter of 2021. This is mainly due to the gains on disposal from our investee companies in the second quarter of 2021.

Finance (Costs)/Income, Net

Our net finance (costs)/income changed from net income of RMB909.2 million in the first quarter of 2021 to costs of RMB1,047.2 million in the second quarter of 2021, primarily due to the increase in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 10.7% from RMB1,278.0 million in the first quarter of 2021 to RMB1,415.2 million in the second quarter of 2021, primarily due to the increase of taxable income in the second quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB8.3 billion in the second quarter of 2021, compared with a profit of RMB7.8 billion in the first quarter of 2021.

Non-IFRS Measure: Adjusted Net Profit

To supplement our consolidated results which are prepared and presented in accordance with International Financial Reporting Standards (the “IFRS”), we utilize non-IFRS adjusted net profit (“**Adjusted Net Profit**”) as an additional financial measure. We define Adjusted Net Profit as profit for the period, as adjusted by adding back (i) share-based compensation, (ii) net fair value changes on investments, (iii) amortization of intangible assets resulting from acquisitions, (iv) changes of value of financial liabilities to fund investors, and (v) income tax effects of non-IFRS adjustments.

Adjusted Net Profit is not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and the impact of certain investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating the Group’s operating performance. However, the use of this particular non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures used by other companies.

MANAGEMENT DISCUSSION AND ANALYSIS

The following tables set forth reconciliations of the Group's non-IFRS measures for the second quarter of 2021, the first quarter of 2021, the second quarter of 2020 and the first half of 2021 and 2020 to the nearest measures prepared in accordance with IFRS.

	Unaudited Three Months Ended June 30, 2021 Adjustments						
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousands, unless specified)						
Profit for the period	8,263,308	622,808	(3,835,561)	79	1,201,012	69,857	6,321,503
Net margin	9.4%						7.2%

	Unaudited Three Months Ended March 31, 2021 Adjustments						
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousands, unless specified)						
Profit for the period	7,788,907	665,677	(1,666,922)	79	(788,017)	69,557	6,069,281
Net margin	10.1%						7.9%

	Unaudited Three Months Ended June 30, 2020 Adjustments						
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousands, unless specified)						
Profit for the period	4,493,473	518,582	(2,135,208)	79	634,371	(138,098)	3,373,199
Net margin	8.4%						6.3%

	Unaudited Six Months Ended June 30, 2021						
	Adjustments						
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousands, unless specified)						
Profit for the period	16,052,215	1,288,485	(5,502,483)	158	412,995	139,414	12,390,784
Net margin	9.7%						7.5%

	Unaudited Six Months Ended June 30, 2020						
	Adjustments						
	As reported	Share-based compensation	Net fair value changes on investments ⁽¹⁾	Amortization of intangible assets resulting from acquisitions ⁽²⁾	Changes of value of financial liabilities to fund investors ⁽³⁾	Income tax effects ⁽⁴⁾	Non-IFRS
	(RMB in thousands, unless specified)						
Profit for the period	6,653,367	1,088,503	(2,521,878)	158	675,377	(221,818)	5,673,709
Net margin	6.4%						5.5%

Notes:

- (1) Includes fair value changes on equity investments and preferred shares investments deducting the cumulative fair value changes for investments (including the financial assets measured at fair value through profit or loss ("FAFVPL") and the investments using the equity method transferred from FAFVPL) disposed in the current period, net gains/(losses) on deemed disposals of investee companies, the impairment provision for investments, re-measurement of loss of significant influence in an associate and re-measurement of investments transferring from FAFVPL to investments using the equity method.
- (2) Represents amortization of intangible assets resulting from acquisitions.
- (3) Represent the change of value of the financial liabilities payable to the fund investors, as a result of the change of fair value of the fund.
- (4) Income tax effects of non-IFRS adjustments.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

On December 4, 2020, the Company completed of a placing of a total of 1,000,000,000 placing shares at HK\$23.70 for each placing share owned by Smart Mobile Holdings Limited to not less than six placees who and whose ultimate beneficial owner(s) are independent third parties and allotted and issued 1,000,000,000 subscription shares at HK\$23.70 per subscription share under the general mandate to Smart Mobile Holdings (the “**2020 Placing and Subscription**”). For further details, please refer to the Company’s announcements dated December 2, 2020, December 3, 2020 and December 9, 2020.

During the six months ended 30 June 2021, other than the funds raised through our Global Offering (as defined in the prospectus of the Company dated June 25, 2018 (the “**Prospectus**”)) in July 2018, the 2020 Placing and Subscription and through the issuance of debt securities as described in “Issuance of Debt Securities” below, we funded our cash requirements principally from cash generated from our operations, bank borrowings. We had cash and cash equivalents of RMB31.9 billion and RMB34.3 billion as of June 30, 2021 and March 31, 2021, respectively.

Note:

The cash resources which the Group considered in cash management include but are not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost and long-term bank deposits. As of June 30, 2021, the aggregate amount of cash resources of the Group was RMB111.6 billion.

Gearing Ratio

As of June 30, 2021, our gearing ratio is -51.6%, compared to -88.9% as of December 31, 2020. Our gearing ratio is calculated as net debt divided by total capital at the end of each financial period. Net debt equals to our total borrowings less our cash and cash equivalents, restricted cash and short-term bank deposits. Total capital is calculated as total equity plus net debt.

Issuance of Debt Securities

On April 29, 2020, Xiaomi Best Time International Limited, a wholly owned subsidiary of the Company, issued US\$600 million 3.375% senior notes due 2030 unconditionally and irrevocably guaranteed by the Company (the “**2030 Notes**”). For further details, please refer to the announcements of the Company published on April 20, 2020 and April 23, 2020.

On December 17, 2020, Xiaomi Best Time International Limited issued zero coupon guaranteed convertible bonds due 2027 guaranteed by the Company in the aggregate principal amount of US\$855 million at an initial conversion price of HK\$36.74 per conversion share (subject to adjustments) (the “2027 Bonds”). The 2027 Bonds are listed on the Stock Exchange. For further details, please refer to the announcements of the Company dated December 2, 2020, December 3, 2020, December 17, 2020 and December 18, 2020.

On July 14, 2021, Xiaomi Best Time International Limited issued US\$800 million 2.875% senior bonds due 2031 (the “2031 Bonds”) and US\$400 million 4.100% senior green bonds due 2051, both of which were unconditionally and irrevocably guaranteed by the Company (the “Green Bonds”). For further details of the 2031 Bonds and Green Bonds, please refer to the announcements of the Company published on July 6, 2021, July 8, 2021, July 14, 2021 and July 15, 2021.

Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended	
	June 30, 2021	June 30, 2020
	(RMB in millions)	
Net cash generated from/(used in) operating activities ⁽¹⁾	8,284.3	(3,926.2)
Net cash used in investing activities	(31,987.4)	(4,211.8)
Net cash generated from financing activities ⁽¹⁾	1,070.1	4,793.4
Net decrease in cash and cash equivalents	(22,633.0)	(3,344.6)
Cash and cash equivalents at beginning of period	54,752.4	25,919.9
Effects of exchange rate changes on cash and cash equivalents	(238.4)	268.0
Cash and cash equivalents at end of period	31,881.0	22,843.3

Note:

- (1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments related to the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar bank, the net cash generated from operating activities was RMB7.6 billion in the first half of 2021 and the net cash used in operating activities was RMB5.1 billion in the first half of 2020, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB4.0 billion in the first half of 2021 and the net cash generated from financing activities was RMB3.2 billion in the first half of 2020, 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 interim report.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash Generated From Operating Activities

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

In the first half of 2021, net cash generated from our operating activities amounted to RMB8.3 billion, representing cash generated from operations of RMB9.5 billion minus income tax paid of RMB1.2 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB18.7 billion, adjusted by an increase in trade payables of RMB19.6 billion, partially offset by an increase in inventories of RMB16.5 billion, an increase in prepayments and other receivables of RMB7.9 billion and fair value gains on investments measured at fair value through profit or loss of RMB6.2 billion.

Net Cash Used In Investing Activities

For the first half of 2021, our net cash used in investing activities was RMB32.0 billion, which was primarily attributed to the net change of short-term bank deposits of RMB14.1 billion, the net change of long-term bank deposits of RMB6.9 billion and the net change of short-term investments measured at fair value through profit or loss of RMB5.1 billion.

Net Cash Generated From Financing Activities

For the first half of 2021, our net cash generated from financing activities was RMB1.1 billion, which was primarily attributed to the proceeds from fund partners of RMB3.4 billion and the net changes of borrowings of RMB2.0 billion, partially offset by the payments for shares repurchase of RMB4.2 billion.

	Unaudited	
	Three months ended	
	June 30, 2021	March 31, 2021
	(RMB in millions)	
Net cash generated from operating activities ⁽¹⁾	6,830.3	1,454.0
Net cash used in investing activities	(6,440.7)	(25,546.7)
Net cash (used in)/generated from financing activities ⁽¹⁾	(2,513.5)	3,583.6
Net decrease in cash and cash equivalents	(2,123.9)	(20,509.1)
Cash and cash equivalents at beginning of period	34,279.5	54,752.4
Effects of exchange rate changes on cash and cash equivalents	(274.6)	36.2
Cash and cash equivalents at end of period	31,881.0	34,279.5

Note:

- (1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments related to the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar bank, the net cash generated from operating activities was RMB8.4 billion in the second quarter of 2021 and the net cash used in operating activities was RMB772.2 million in the first quarter of 2021, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB0.5 billion in the second quarter of 2021 and the net cash generated from financing activities was RMB4.6 billion in the first quarter of 2021, 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 interim report.

Net Cash Generated From Operating Activities

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

MANAGEMENT DISCUSSION AND ANALYSIS

In the second quarter of 2021, net cash generated from our operating activities amounted to RMB6.8 billion, representing cash generated from operations of RMB7.5 billion minus income tax paid of RMB0.7 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB9.7 billion, adjusted by an increase in trade payables of RMB9.1 billion, partially offset by an increase in inventories of RMB7.9 billion and fair value gains on investments measured at fair value through profit or loss of RMB4.2 billion.

Net Cash Used In Investing Activities

For the second quarter of 2021, our net cash used in investing activities was RMB6.4 billion, which was primarily attributed to the net change of short-term investments measured at fair value through profit or loss of RMB4.6 billion and the net change of long-term bank deposits of RMB3.1 billion, partially offset by proceeds from disposal of investments accounted for using the equity method of RMB1.4 billion.

Net Cash Used In Financing Activities

For the second quarter of 2021, our net cash used in financing activities was RMB2.5 billion, which was primarily attributed to the payments for shares repurchase of RMB4.2 billion and the net changes of borrowings of RMB1.3 billion, partially offset by the proceeds from fund partners of RMB3.4 billion.

Borrowings

As of March 31, 2021 and June 30, 2021, we had total borrowings of RMB21.0 billion and RMB19.3 billion, respectively.

Capital Expenditure

	Unaudited Six months ended	
	June 30, 2021	June 30, 2020
	(RMB in millions)	
Capital expenditures	1,828.8	1,129.2
Placement of long-term investments ⁽¹⁾	4,971.9	4,851.2
Total	6,800.7	5,980.4

	Unaudited Three months ended	
	June 30, 2021	March 31, 2021
	(RMB in millions)	
Capital expenditures	697.8	1,131.0
Placement of long-term investments ⁽¹⁾	2,833.7	2,138.2
Total	3,531.5	3,269.2

Note:

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

Off-Balance Sheet Commitments and Arrangements

As of June 30, 2021, except for financial guarantee contracts, we had not entered into any significant off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of June 30, 2021, we did not have other plans for material investments and capital assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment Held

As of June 30, 2021, aggregate book value of our investment is RMB57.9 billion, an increase of 57.3% year-over-year. The total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on June 30, 2021 (ii) book value of our stakes in unlisted investee companies accounted for using the equity method and (iii) book value of long-term investments measured at fair value through profit or loss) reached RMB74.5 billion.

Save as disclosed herein, there are no material changes in our investment portfolio affecting the Company's performance that need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules.

We continue to closely monitor the performance of our investment portfolio and strategically make investments, acquisitions, and explore opportunities in monetising some of the existing investments if appropriate opportunities in the market arise.

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5 percent or more of the Group's total assets as of June 30, 2021) during the six months ended June 30, 2021.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In the second quarter of 2021, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures.

Employee and Remuneration Policy

As of June 30, 2021, we had 26,110 full-time employees, 24,028 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 June 30, 2021, our research and development personnel, totaling 11,062 employees, were staffed across our various departments.

One of the factors of 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 June 30, 2021, 13,707 employees held share-based awards. The total remuneration expenses, including share-based compensation expenses, in the second quarter of 2021 were RMB3.6 billion and in the first half of 2021 were RMB7.0 billion.

Foreign Exchange Risk

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

We will continue to monitor changes in currency exchange rates and will take necessary measures to mitigate any impacts caused by exchange rate fluctuations.

Pledge of Assets

As of June 30, 2021, we pledged a restricted deposit of RMB2,312.7 million, compared with RMB2,073.9 million as of March 31, 2021. We also had pledged certain buildings, construction in progress and land use right for borrowings.

Contingent Liabilities

As of June 30, 2021, we did not have any material contingent liabilities, compared with nil as of March 31, 2021.

OTHER INFORMATION

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

As of June 30, 2021, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

1. Interest in Shares

Name of Director or chief executive	Nature of interest ⁽¹⁾	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾	
Lei Jun ⁽³⁾	Beneficiary, founder and settlor of a trust(L)	ARK Trust (Hong Kong) Limited	4,194,403,900	90.06%	
			Class A Shares	2,476,135,242	12.13%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	4,194,403,900	90.06%	
			Class A Shares	2,324,668,570	11.39%
	Interest in controlled corporations(L)	Smart Player Limited	59,221,630	0.29%	
	Interest in controlled corporations(L)	Team Guide Limited	92,245,042	0.45%	
Lin Bin ⁽⁴⁾	Beneficial owner(L)		30,347,523	0.15%	
	Trustee of a trust(L)	Apex Star FT LLC	Class B Shares	93,438,272	0.46%
			Class B Shares	462,890,213	9.94%
	Trustee of a trust(L)	Apex Star LLC	Class A Shares	1,752,557,602	8.58%
			Class B Shares	60,686,600	0.30%
Interest in controlled corporations(L)	Bin Lin and Daisy Liu Family Foundation	Class B Shares			
Liu Qin ⁽⁵⁾	Interest in controlled corporations(L)	Morningside China TMT Fund I, L.P.	163,939,174	0.80%	
	Interest in controlled corporations(L)	Morningside China TMT Fund II, L.P.	20,527,199	0.10%	
			Class B Shares		

Name of Director or chief executive	Nature of interest ⁽¹⁾	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares ⁽²⁾
Liu De ⁽⁶⁾	Beneficial owner(L)		10,000,000 Class B Shares	0.05%
	Founder of a trust(L)	Lofty Power International Limited	135,871,935 Class B Shares	0.67%

Notes:

- (1) The letter "L" denotes a long position in the shares.
- (2) The calculation is based on the total number of relevant class of Shares in issue as of June 30, 2021.
- (3) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,194,403,900 Class A Shares and the 2,324,668,570 Class B Shares held by Smart Mobile Holdings Limited; 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO.
- (4) Lin Bin directly holds 30,347,523 Class B Shares. Apex Star FT LLC is controlled by Bin Lin Family Trust. Accordingly, Lin Bin, as the trustee of Bin Lin Family Trust, is deemed to be interested in 93,438,272 Class B Shares held by Apex Star FT LLC under the SFO. Apex Star LLC is controlled by Bin Lin 2021 Trust. Accordingly, Lin Bin, as the trustee of Bin Lin 2021 Trust, is deemed to be interested in 1,752,557,602 Class B Shares held by Apex Star LLC under the SFO. Bin Lin and Daisy Liu Family Foundation is controlled by Lin Bin. Accordingly, Lin Bin is deemed to be interested in 60,686,600 Class B Shares held by Bin Lin and Daisy Liu Family Foundation under the SFO. Apex Star LLC is controlled by Bin Lin 2021 A Trust. Accordingly, Lin Bin, as the trustee of Bin Lin 2021 A Trust, is deemed to be interested in 462,890,213 Class A Shares under the SFO.
- (5) Liu Qin is entitled to exercise or control the exercise of one-third of the voting power at general meetings of TMT General Partner Ltd. and is therefore deemed to be interested in the Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P., which respectively controls Morningside China TMT Fund I, L.P. and Morningside China TMT Fund II, L.P. (the "Morningside Funds"). Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.
- (6) Liu De directly holds 4,614,780 Class B Shares and has interests in share options granted under Pre-IPO ESOP to subscribe for 5,385,220 Class B Shares. Lofty Power International Limited is controlled by YYL Family Trust. Accordingly, Liu De, as the trustee of YYL Family Trust, is deemed to be interested in 135,871,935 Class B Shares under the SFO.

OTHER INFORMATION

2. Interest in associated corporations

Name of Director or chief executive	Nature of interest	Associated corporations	Approximate percentage of shareholding ⁽¹⁾
Lei Jun	Beneficial owner	Xiaomi Finance ⁽²⁾	42.07%
	Interest in controlled corporations(L)	Parkway Global Holdings Limited ⁽³⁾	100%
	Interest in controlled corporations(L)	Sunrise Vision Holdings Limited ⁽³⁾	100%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited ⁽³⁾	100%
	Interest in controlled corporations(L)	Zimi International Incorporation ⁽⁴⁾	9.97%

Notes:

- (1) The calculation is based on the total number of shares of the associated corporations in issue as of June 30, 2021.
- (2) Xiaomi Finance is a subsidiary of the Company and therefore Xiaomi Finance is an associated corporation of the Company. Lei Jun is entitled to receive up to 42,070,000 shares in Xiaomi Finance pursuant to options granted to him under the XMF Share Option Scheme I (subject to the relevant vesting conditions).
- (3) Smart Mobile Holdings Limited, the holding company of the Company, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. The entire interest in Parkway Global Holdings Limited is held through a trust which was established by Lei Jun (as the settlor) established for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in the 4,194,403,900 Class A Shares and 2,324,668,570 Class B Shares held by Smart Mobile Holdings Limited under the SFO. Therefore, Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited and Parkway Global Holdings Limited are associated corporations of the Company.
- (4) As of June 30, 2021, the Company held 49.91% of the equity interest of Zimi. Zimi is therefore an associated corporation of the Company. Lei Jun is ultimately interested in Zimi International Incorporation as to approximately 9.97% (being 9,803,900 ordinary shares) as of June 30, 2021. The Company entered into a share purchase agreement on March 24, 2021 with the shareholders of Zimi to acquire the remaining 50.09% of the share capital of Zimi, whose transaction was closed on July 5, 2021 following which Zimi became a wholly-owned subsidiary of the Group.

Save as disclosed above, as of June 30, 2021, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As of June 30, 2021, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares ⁽¹⁾
Class A Shares			
Smart Mobile Holdings Limited ⁽²⁾	Beneficial interest	4,194,403,900	90.06%
Sunrise Vision Holdings Limited ⁽²⁾	Interest in controlled corporations	4,194,403,900	90.06%
Parkway Global Holdings Limited ⁽²⁾	Interest in controlled corporations	4,194,403,900	90.06%
ARK Trust (Hong Kong) Limited ⁽²⁾	Trustee	4,194,403,900	90.06%
Class B Shares			
Smart Mobile Holdings Limited ⁽²⁾	Beneficial interest	2,324,668,570	11.39%
Sunrise Vision Holdings Limited ⁽²⁾	Interest in controlled corporations	2,383,890,200	11.68%
Parkway Global Holdings Limited ⁽²⁾	Interest in controlled corporations	2,383,890,200	11.68%
ARK Trust (Hong Kong) Limited ⁽²⁾	Trustee	4,835,967,052	23.69%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of June 30, 2021.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,194,403,900 Class A Shares and the 2,324,668,570 Class B Shares held by Smart Mobile Holdings Limited; 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 2,359,831,810 Class B shares held by the trusts.

Save as disclosed above, as of June 30, 2021, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

OTHER INFORMATION

Share Option Schemes

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

1. Pre-IPO ESOP

The Pre-IPO ESOP was adopted by the Company on May 5, 2011 and superseded on August 24, 2012. The purpose of the Pre-IPO ESOP is to promote the success and enhance the value of the Company, by linking the personal interests of the members of the Board, employees, consultants and other individuals to those of the Shareholders and, by providing such individuals with an incentive for outstanding performance, to generate superior returns to the Shareholders. The Pre-IPO ESOP is further intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of recipients upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent. The terms of the Pre-IPO ESOP are not subject to Chapter 17 of the Listing Rules. No share options and RSUs had been granted to the Directors during the Reporting Period. No further option could be granted under the Pre-IPO ESOP after the Listing.

Details of movements of share options and RSUs granted under the Pre-IPO ESOP during the six months ended June 30, 2021 are as follows:

Grantees	Dates of grant	Vesting period	Number of share options				Exercise price (US\$)
			Outstanding as of January 1, 2021	Cancelled/ Lapsed during the period	Exercised during the period	Outstanding as of June 30, 2021	
Chew Shou Zi	August 1, 2015 January 1, 2018	5-10 years	18,511,041	—	—	18,511,041	0 to 0.102
7,125 grantees in aggregate	Between April 1, 2010 to June 14, 2018	1-10 years	473,288,929	(7,146,733)	(31,084,671)	435,057,525	0 to 0.34
Total			491,799,970	(7,146,733)	(31,084,671)	453,568,566	

(1) Chew Shou Zi has resigned as an executive Director of the Company with effect from March 24, 2021.

Further details of the Pre-IPO ESOP are set out in Note 26 to the consolidated financial statements.

2. Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted by the Company on June 17, 2018. The purpose of the Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of our Company and its Shares for the benefit of our Company and the Shareholders as a whole. The Post-IPO Share Option Scheme will provide our Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants. The terms of the Post-IPO Share Option Scheme are governed by Chapter 17 of the Listing Rules.

Details of movements of share options granted under the Post-IPO Share Option Scheme during the six months ended June 30, 2021 are as follows:

Grantees	Dates of grant	Vesting period	Exercise period	Number of share options					Outstanding as of June 30, 2021	Exercise price (HK\$)	The closing price of the shares immediately before the date of grant of the Option (HK\$)
				Outstanding as of January 1, 2021	Granted during the period	Lapsed during the period	Cancelled/ Exercised during the period	Outstanding as of June 30, 2021			
Director											
Chew Shou Zi	September 4, 2020	10 years	September 4, 2025 to September 3, 2030	100,000,000	–	(100,000,000)	–	–	24.50	24.50	
Other employees											
6	September 4, 2020	4–10 years	September 4, 2021 to September 3, 2030	118,000,000	–	(10,000,000)	–	108,000,000	24.50	24.50	
1	October 9, 2020	4 years	October 9, 2021 to October 8, 2030	6,250,000	–	–	–	6,250,000	21.04	20.95	
1	January 6, 2021	4 years	January 6, 2022 to January 5, 2031	–	6,250,000	–	–	6,250,000	33.90	33.90	
1	July 2, 2020	4 years	July 2, 2021 to July 1, 2030	3,000,000	–	–	–	3,000,000	13.60	13.60	
Total				227,250,000	6,250,000	(110,000,000)	–	123,500,000			

(1) Chew Shou Zi has resigned as an executive Director of the Company with effect from March 24, 2021.

Further details of the Post-IPO Share Option Scheme are set out in Note 26 to the consolidated financial statements.

3. XMF Share Option Schemes

The XMF Share Option Scheme I was adopted by the shareholders of Xiaomi Finance on June 17, 2018. The XMF Share Option Scheme I is not subject to Chapter 17 of the Listing Rules. The purpose of the XMF Share Option Scheme I is to provide selected participants including directors and employees of Xiaomi Finance and its subsidiaries with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders.

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The XMF Share Option Scheme II was approved by the shareholders of Xiaomi Finance on June 17, 2018. The XMF Share Option Scheme II is governed by Chapter 17 of the Listing Rules. The purpose of the XMF Share Option Scheme II is to provide selected participants with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage the selected participants to work towards enhancing the value of Xiaomi Finance for the benefit of its shareholders.

As of June 30, 2021, there were a total of 42,070,000 outstanding share options granted under the XMF Share Option Scheme I. Details of movements of share options granted under the XMF Share Option Scheme I during the six months ended June 30, 2021 are as follows:

Name	Date of grant	Operation period	Number of XMF Shares represented by the option granted	Number of options exercised during the period	Numbers of options as of June 30, 2021	Subscription price
Lei Jun	June 17, 2018	20 years from the date of grant	42,070,000	—	42,070,000	RMB3.8325

As of June 30, 2021, no options had been granted, agreed to be granted pursuant to the XMF Share Option Scheme II since its adoption. The total number of XMF Shares available for grant under the XMF Share Option Scheme II was 107,930,000 XMF Shares, representing 107.93% of the issued share capital of Xiaomi Finance as at the Latest Practicable Date and 43.17% of the issued share capital of Xiaomi Finance assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised.

4. Pinecone Share Option Schemes

The Pinecone Share Option Scheme I was adopted pursuant to the written resolutions of the shareholders of Pinecone International passed on July 30, 2015. The Pinecone Share Option Scheme I is not subject to Chapter 17 of the Listing Rules. The purpose of the Pinecone Share Option Scheme I is to promote the success of Pinecone International and the interests of its shareholders by providing a means through which Pinecone International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors and other eligible persons and to further link the interests of awarded recipients with those of Pinecone International's shareholders generally.

The Pinecone Share Option Scheme II was adopted pursuant to the written resolutions of the shareholders of Pinecone International on June 17, 2018. The Pinecone Share Option Scheme II is subject to Chapter 17 of the Listing Rules. The purpose of the Pinecone Share Option Scheme II is to provide selected participants with the opportunity to acquire proprietary interests in Pinecone International and to encourage selected participants to work towards enhancing the value of Pinecone International and its shares for the benefit of Pinecone International and its shareholders, including our Company, as a whole.

As of June 30, 2021, there were 56,706 outstanding Pinecone Options granted to 177 participants under the Pinecone Share Option Scheme I. The aggregate number of underlying Pinecone Ordinary Shares pursuant to the Pinecone Options granted is 9,532,868 Pinecone Ordinary Shares. All Pinecone Options were granted between May 18, 2015 and June 8, 2018. The exercise price of all Pinecone Options that have been granted is between US\$0.0001 to US\$1.0377. All granted Pinecone Options vest on the second anniversary, third and fourth anniversary of the grant date as to 50%, 25% and 25%, respectively. No Pinecone Options have been granted to Directors, senior managers or other connected persons of the Company. Pinecone International will not make any further grants of Pinecone Options under the Pinecone Share Option Scheme I after the Listing Date. All shares underlying the Pinecone Options are Pinecone Ordinary Shares.

Details of movements of Pinecone Options under the Pinecone Share Option Scheme I during the six months ended June 30, 2021 are as follows:

Grantees in aggregate	Date of grant	Vesting period	Number of share options			Exercise price (US\$)
			Outstanding as of January 1, 2021	Cancelled/ Lapsed during the period	Outstanding as of June 30, 2021	
177	Between May 18, 2015 to June 8, 2018	4 years	56,706	—	56,706	0.0001 to 1.0377

As of June 30, 2021, no options under the Pinecone Share Option Scheme II had been granted or agreed to be granted since its adoption. The total number of Pinecone Ordinary Shares available for grant under the Pinecone Share Option Scheme II was 2,467,132 Pinecone Ordinary Shares, representing 9.87% of the issued share capital of Pinecone International as at the Latest Practicable Date.

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Share Award Scheme

The Company adopted the Share Award Scheme on June 17, 2018. The purpose of the Share Award Scheme is (1) to align the interests of eligible persons with those of the Group through ownership of Class B Shares, dividends and other distributions paid on Shares and/or the increase in value of the Class B Shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group.

During the six months ended June 30, 2021, a total of 16,866,309 award shares had been granted under the Share Award Scheme, all of which were granted to third parties independent of the Company and its connected persons.

Details of movements of award shares granted during the six months ended June 30, 2021 are as follows:

Grantees in aggregate	Dates of grant	Number of award shares				Held at June 30, 2021
		Held at January 1, 2021	Granted during the period	Exercised during the period	Lapsed during the period	
2,405	January 6, 2021	–	16,866,309	–	(1,460,949)	15,405,360

Further details of the Share Award Scheme are set out in Note 26 to the consolidated financial statements.

Weighted Voting Rights

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

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

As of June 30, 2021, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,194,403,900 Class A Shares, representing approximately 62.61% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 462,890,213 Class A Shares, representing 6.91% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters.

Class A Shares may be converted into Class B Shares on a one-to-one ratio. As of June 30, 2021, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 4,657,294,113 Class B Shares, representing 22.81% of the total number of issued and outstanding Class B Shares or 18.57% of the issued share capital of the Company.

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

- (i) upon the occurrence of any of the circumstances set out in Rule 8A.17 of the Listing Rules, in particular where the WVR Beneficiary is: (1) deceased; (2) no longer a member of the Board; (3) deemed by the Stock Exchange to be incapacitated for the purpose of performing his duties as a director; or (4) deemed by the Stock Exchange to no longer meet the requirements of a director set out in the Listing Rules;
- (ii) when the Class A Shareholders have transferred to another person the beneficial ownership of, or economic interest in, all of the Class A Shares or the voting rights attached to them, other than in the circumstances permitted by Rule 8A.18 of the Listing Rules;
- (iii) where a vehicle holding Class A Shares on behalf of a WVR Beneficiary no longer complies with Rule 8A.18(2) of the Listing Rules; or
- (iv) when all of the Class A Shares have been converted to Class B Shares.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting stringent corporate governance standards. The principles of the Company's corporate governance are to promote effective internal control measures and to enhance the transparency and accountability of the Board to all the 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 during the six months ended June 30, 2021.

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Pursuant to code provision A.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. The Company does not have a separate chairman and chief executive officer and Mr. Lei Jun currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of the 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 as the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code throughout the six months ended June 30, 2021.

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

During the six months ended June 30, 2021 and up to the Latest Practicable Date, the Company repurchased a total of 254,718,800 Class B Shares (the "Shares Repurchased") of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$6,524,357,695. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share		Aggregate Consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
March	19,307,600	26.20	25.50	498,900,661
April	173,381,600	27.20	24.60	4,494,026,504
July	15,250,000	26.40	25.20	393,626,650
August	16,150,000	24.90	24.20	396,677,775
September	30,629,600	25.00	23.35	741,126,105
Total	254,718,800			6,524,357,695

As at the Latest Practicable Date, the number of Class B Shares in issue was reduced by 207,939,200 shares as a result of the cancellation of the Shares Repurchased in March, April and July 2021 accordingly, and all of the Shares Repurchased in August and September 2021 are in the process of being cancelled. Upon cancellation of the Shares Repurchased in March, April and July 2021, the weighted voting rights (“WVR”) beneficiaries of the Company simultaneously reduced their WVR in the Company proportionately by way of converting their Class A ordinary shares (“Class A Shares”) into Class B Shares on a one-to-one ratio pursuant to Rule 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under Rules 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in March 2021 and April 2021 were subsequently cancelled on June 3, 2021. A total of 35,794,228 Class A Shares were converted into Class B Shares on a one-to-one ratio on June 3, 2021, of which Lei Jun, through Smart Mobile Holdings Limited, converted 32,236,626 Class A Shares and Lin Bin, through Bin Lin 2021 A Trust, converted 3,557,602 Class A Shares. The Shares Repurchased in July 2021 were subsequently cancelled on August 20, 2021. A total of 2,831,101 Class A Shares were converted into Class B Shares on a one-to-one ratio on August 20, 2021, of which Lei Jun, through Smart Mobile Holdings Limited, converted 2,549,717 Class A Shares and Lin Bin, through Bin Lin 2021 A Trust, converted 281,384 Class A Shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s securities listed on the Stock Exchange during the six months ended June 30, 2021 and up to the Latest Practicable Date.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2021.

Use of Net Proceeds

1. Use of Net Proceeds from Issue of the 2020 Placing and Subscription

The net proceeds received by the Company from the 2020 Placing and Subscription were approximately US\$3.1 billion. The Company intends to use the estimated net proceeds for (a) strengthening our working capital for business expansion; (b) investments to increase market share in key markets; (c) strategic ecosystem investments and (d) other general corporate purposes. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated December 2, 2020. The Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within about 2 years.

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As of June 30, 2021, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from 2020 Placing and Subscription (US\$ million)	Utilization as of Dec 31, 2020 (US\$ million)	Unutilized amount as of Dec 31, 2020 (US\$ million)	Utilization as of Jun 30, 2021 (US\$ million)	Unutilized amount as of Jun 30, 2021 (US\$ million)
Strengthening our working capital for business expansion	930.0	112.9	817.1	509.9	420.1
Investments to increase market share in key markets	930.0	197.8	732.2	875.4	54.6
Strategic ecosystem investments	930.0	60.9	869.1	438.5	491.5
Other general corporate purposes	310.0	39.1	270.9	192.2	117.8

2. Use of Net Proceeds from Issue of the 2027 Bonds

The net proceeds received by the Company from the 2027 Bonds were approximately US\$889.6 million. The Company intends to use the estimated net proceeds for (a) strengthening our working capital for business expansion; (b) investments to increase market share in key markets; (c) strategic ecosystem investments and (d) other general corporate purposes. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated December 2, 2020. The Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within about 2 years.

As of June 30, 2021, the Group had utilized the net proceeds as set out in the table below:

	Net proceeds from 2027 Bonds (US\$ million)	Utilization as of Dec 31, 2020 (US\$ million)	Unutilized amount as of Dec 31, 2020 (US\$ million)	Utilization as of Jun 30, 2021 (US\$ million)	Unutilized amount as of Jun 30, 2021 (US\$ million)
Strengthening our working capital for business expansion	266.9	32.4	234.5	146.3	120.6
Investments to increase market share in key markets	266.9	56.8	210.1	251.2	15.7
Strategic ecosystem investments	266.9	17.5	249.4	125.8	141.1
Other general corporate purposes	88.9	11.1	77.8	55.2	33.7

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, Liu Qin, Chen Dongsheng and Wong Shun Tak. Wong Shun Tak is the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2021. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the external auditor of the Company, PricewaterhouseCoopers.

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.

Corporate Governance Committee

The Company has established the Corporate Governance Committee in compliance with Rule 8A.30 of the Listing Rules and the CG Code. The primary duties of the Corporate Governance Committee are to ensure that the Company is operated and managed for the benefit of all Shareholders and to ensure the Company's compliance with the Listing Rules and safeguards relating to the weighted voting rights structure of the Company. The members of the Corporate Governance Committee are the independent non-executive Directors, namely, Chen Dongsheng, Wong Shun Tak and Tong Wai Cheung Timothy. Chen Dongsheng is the chairman of the Corporate Governance Committee.

The following is a summary of work performed by the Corporate Governance Committee during the six months ended June 30, 2021:

- Reviewed the policies and practices of the Company on corporate governance and on compliance with legal and regulatory requirements. The policies reviewed include Code for Securities Transactions by Directors and Relevant Employees, board diversity policy, shareholders' communication policy, procedures for nomination of director by shareholders, disclosure of information policy, connected transactions policy and whistle-blowing policy, dividend policy and other corporate governance policies.
- Reviewed the Company's compliance with the CG Code and the deviation(s) from code provision A.2.1 of the CG Code, the Company's disclosure in the Corporate Governance Report and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.
- Reviewed the remuneration, the terms of engagement and the re-appointment of the Company's compliance advisor.

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- Reviewed and monitored the management of conflicts of interests between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.
- Reviewed and monitored all risks related to the weighted voting rights structure, including connected transactions between the Group/the Shareholders on one hand and the WVR Beneficiaries on the other.
- Reviewed the arrangements for the training and continuous professional development of Directors and senior management (in particular, Chapter 8A of the Listing Rules and knowledge in relation to risks relating to the weighted voting rights structure).
- Reviewed the written confirmation provided by the WVR Beneficiaries that they have been members of the Board throughout the year ended December 31, 2020 and no matters under Rule 8A.17 of the Listing Rules have occurred during the year ended December 31, 2020, and they have complied with Rules 8A.14, 8A.15, 8A.18 and 8A.24 of the Listing Rules throughout the year ended December 31, 2020.
- Sought to ensure effective and on-going communication between the Company and its Shareholders, particularly with regards to the requirements of Rule 8A.35 of the Listing Rules.
- Reviewed the Company's compliance with the ESG Reporting Guide and disclosure in Environmental, Social and Governance Report.
- Reviewed work performance and work plan of ESG team and the Company's ESG Strategy and provide guidance and supervision to the ESG team.
- Reported on the work of the Corporate Governance Committee covering all areas of its terms of reference.

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

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

Qualification Requirements

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

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

- (a) we have incorporated a number of overseas entities for the purpose of expanding our businesses overseas;
- (b) we operate and manage of the domain name www.mi.com/in/ for the purpose of promoting and selling our products and services in India; and
- (c) we have registered a number of domain names overseas for the purpose of promoting our products and services.

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

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Because foreign investment in certain areas of the industry in which we currently and may operate are subject to restrictions under current PRC laws and regulations outlined above, after consultation with our PRC Legal Advisor, we determined that it was not viable for the Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in the PRC subject to foreign investment restrictions, the Company would gain effective control over, and have the right to receive all the economic benefits generated by the businesses currently operated by Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and the Consolidated Affiliated Entities and the Registered Shareholders, on the other hand. The Contractual Arrangements allow the financial results of our Consolidated Affiliated Entities to be consolidated into our results of our Group's financial information as if they were subsidiaries of our Group.

Further details of the Contractual Arrangements are set out in the Prospectus and the Company's 2020 annual report published on March 24, 2020.

Material Litigation

As of June 30, 2021, the Company was not involved in any material litigation or arbitration. Nor were the Directors aware of any material litigation or claims that were pending or threatened against the Company.

Events after the Reporting Period

On July 5, 2021, the transaction that the Company entered into a share purchase agreement with shareholders of Zimi was closed. Zimi became a wholly-owned subsidiary of the Group.

On July 14, 2021, Xiaomi Best Time International Limited issued 2031 Bonds and Green Bonds. For further details, please refer to "Issuance of Debt Securities" above.

As of August 25, 2021, the Company entered into the share purchase agreements with the relevant parties, pursuant to which, the Company conditionally agreed to acquire, and each of the ordinary shareholder vendors and preferred shareholder vendors has conditionally agreed to sell 125,494,231 ordinary shares and 50,854,701 preferred shares representing 71.16% and 28.84% respectively of the entire issued share capital of the Deepmotion Tech Limited ("**Deepmotion**", an autonomous driving technology company). The total consideration for the acquisition was approximately US\$77.37 million. The closing of the above share purchase agreements (the "**Closing**") shall be subject to the fulfillment or where applicable waiver of certain closing conditions. Upon Closing, Deepmotion will become a wholly-owned subsidiary of the Group. As of the date of this interim report, this transaction has not yet closed.

Save as disclosed in this interim report, there was no other significant events that might affect the Group after June 30, 2021 and up to the Latest Practicable Date.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

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

Introduction

We have reviewed the interim financial information set out on pages 62 to 121, which comprises the interim condensed consolidated balance sheet of Xiaomi Corporation (the “**Company**”) and its subsidiaries (together, the “**Group**”) as of June 30, 2021 and the interim condensed consolidated income statements and the interim condensed consolidated statements of comprehensive income for the three-month and six-month periods then ended, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 25, 2021

PricewaterhouseCoopers, 22/F Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months and six months ended June 30, 2021

(Expressed in Renminbi ("RMB"))

	Note	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
		2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue	6	87,788,960	53,537,805	164,671,123	103,239,972
Cost of sales	6, 9	(72,640,918)	(45,836,359)	(135,361,850)	(87,980,069)
Gross profit		15,148,042	7,701,446	29,309,273	15,259,903
Selling and marketing expenses	9	(5,680,659)	(3,223,676)	(9,844,134)	(5,848,549)
Administrative expenses	9	(1,150,336)	(836,426)	(2,137,988)	(1,617,959)
Research and development expenses	9	(3,064,176)	(1,958,272)	(6,076,167)	(3,829,256)
Fair value changes on investments measured at fair value through profit or loss	16	4,165,419	2,366,188	6,228,626	2,714,034
Share of net (losses)/profits of investments accounted for using the equity method	11	(26,193)	892,645	(17,204)	1,023,383
Other income	7	234,612	183,051	386,665	256,778
Other gains/(losses), net	8	1,099,047	288,071	1,034,348	(222,119)
Operating profit		10,725,756	5,413,027	18,883,419	7,736,215
Finance income	10	322,651	221,794	597,859	513,740
Finance costs	10	(1,369,865)	(767,025)	(735,856)	(928,070)
Profit before income tax		9,678,542	4,867,796	18,745,422	7,321,885
Income tax expenses	12	(1,415,234)	(374,323)	(2,693,207)	(668,518)
Profit for the period		8,263,308	4,493,473	16,052,215	6,653,367
Attributable to:					
— Owners of the Company		8,268,477	4,498,128	16,061,366	6,661,643
— Non-controlling interests		(5,169)	(4,655)	(9,151)	(8,276)
		8,263,308	4,493,473	16,052,215	6,653,367
Earnings per share (expressed in RMB per share):	13				
Basic		0.332	0.189	0.642	0.279
Diluted		0.323	0.183	0.625	0.271

The above condensed consolidated income statements should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and six months ended June 30, 2021

(Expressed in RMB)

	Note	Unaudited Three months ended June 30,		Unaudited Six months ended June 30,	
		2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Profit for the period		8,263,308	4,493,473	16,052,215	6,653,367
Other comprehensive (loss)/income:					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Share of other comprehensive income/(loss) of investments accounted for using the equity method	11	666	(6,453)	(54,551)	16,983
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		—	(4,773)	—	(4,773)
Net (losses)/gains from changes in fair value of financial assets at fair value through other comprehensive income		(5,861)	2,101	(2,146)	2,101
Currency translation differences		(262,223)	27,778	(165,059)	36,123
<i>Item that will not be reclassified subsequently to profit or loss</i>					
Currency translation differences		(842,332)	(45,891)	(483,624)	439,556
Other comprehensive (loss)/income for the period, net of tax		(1,109,750)	(27,238)	(705,380)	489,990
Total comprehensive income for the period		7,153,558	4,466,235	15,346,835	7,143,357
Attributable to:					
— Owners of the Company		7,162,807	4,470,625	15,358,957	7,145,858
— Non-controlling interests		(9,249)	(4,390)	(12,122)	(2,501)
		7,153,558	4,466,235	15,346,835	7,143,357

The above condensed consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2021

(Expressed in RMB)

	Note	Unaudited As of June 30, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Assets			
Non-current assets			
Property and equipment	14	6,987,166	6,305,657
Intangible assets	15	3,689,028	4,265,619
Investments accounted for using the equity method	11	14,008,708	12,781,995
Long-term investments measured at fair value through profit or loss	16	43,877,254	35,215,319
Deferred income tax assets	25	1,578,712	2,011,072
Long-term bank deposits		16,536,932	9,608,677
Long-term investments measured at amortized cost	16	360,814	232,798
Other non-current assets	21, 22	9,055,203	6,975,851
		96,093,817	77,396,988
Current assets			
Inventories	20	56,801,934	41,670,719
Trade receivables	18	14,621,462	10,161,019
Loan receivables	17	8,675,403	8,919,088
Prepayments and other receivables	19	24,152,596	16,181,520
Bills receivables measured at fair value through other comprehensive income		140,000	200,000
Short-term investments measured at fair value through other comprehensive income	16	843,835	797,456
Short-term investments measured at amortized cost	16	2,040,939	—
Short-term investments measured at fair value through profit or loss	16	27,410,872	22,376,387
Short-term bank deposits		31,448,974	17,598,946
Restricted cash		2,312,707	3,625,257
Cash and cash equivalents		31,881,040	54,752,443
		200,329,762	176,282,835
Total assets		296,423,579	253,679,823

CONDENSED CONSOLIDATED BALANCE SHEET

As of June 30, 2021

(Expressed in RMB)

	Note	Unaudited As of June 30, 2021 RMB'000	Audited As of December 31, 2020 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	23	408	409
Reserves	23	135,766,982	123,691,287
		135,767,390	123,691,696
Non-controlling interests		269,379	321,819
Total equity		136,036,769	124,013,515
Liabilities			
Non-current liabilities			
Borrowings	24	13,262,146	10,634,806
Deferred income tax liabilities	25	415,968	300,556
Warranty provision		971,098	802,590
Other non-current liabilities	27	14,767,197	10,001,428
		29,416,409	21,739,380
Current liabilities			
Trade payables	28	91,373,987	72,198,856
Other payables and accruals	29	16,848,688	13,619,655
Advance from customers		11,913,277	11,999,086
Borrowings	24	6,051,582	6,961,937
Income tax liabilities		1,381,699	674,298
Warranty provision		3,401,168	2,473,096
		130,970,401	107,926,928
Total liabilities		160,386,810	129,666,308
Total equity and liabilities		296,423,579	253,679,823

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

On behalf of the Board

Lei Jun
Director

Lin Bin
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2021

(Expressed in RMB)

	Note	Unaudited Attributable to owners of the Company					Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000			
Balance at January 1, 2020		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676
Comprehensive income									
Profit for the period		—	—	—	—	6,661,643	6,661,643	(8,276)	6,653,367
Other comprehensive income									
<i>Items that may be reclassified subsequently to profit or loss</i>									
Share of other comprehensive income of investments accounted for using the equity method	11	—	—	—	16,983	—	16,983	—	16,983
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		—	—	—	(4,773)	—	(4,773)	—	(4,773)
Net gains from changes in fair value of financial assets at fair value through other comprehensive income		—	—	—	2,101	—	2,101	—	2,101
Currency translation differences		—	—	—	30,348	—	30,348	5,775	36,123
<i>Item that will not be reclassified subsequently to profit or loss</i>									
Currency translation differences		—	—	—	439,556	—	439,556	—	439,556
Total comprehensive income		—	—	—	484,215	6,661,643	7,145,858	(2,501)	7,143,357
Transactions with owners in their capacity as owners									
Purchase of own shares	23	—	(454,872)	—	—	—	(454,872)	—	(454,872)
Cancellation of shares	23	—	1,345,663	(1,349,709)	—	—	(4,046)	—	(4,046)
Release of ordinary shares from Share Scheme Trusts	23	—	—	309,129	(293,969)	—	15,160	—	15,160
Share of other reserves of investments accounted for using the equity method	11	—	—	—	63,559	—	63,559	—	63,559
Employees share-based compensation scheme:									
— value of employee services	26	—	—	—	977,933	—	977,933	185	978,118
— exercise of share options and restricted stock units	23, 26	2	—	783,397	(665,399)	—	118,000	—	118,000
Capital injection from non-controlling interests		—	—	—	—	—	—	31,000	31,000
Appropriation to general reserves		—	—	—	19,246	(19,246)	—	—	—
Share consideration for acquisition of an associate		1	—	320,384	320,384	—	640,769	—	640,769
Others		—	—	—	(26,349)	—	(26,349)	—	(26,349)
Total transactions with owners in their capacity as owners		3	890,791	63,201	395,405	(19,246)	1,330,154	31,185	1,361,339
Balance at June 30, 2020		391	(162,031)	43,642,037	8,910,766	37,415,423	89,806,586	355,786	90,162,372

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2021

(Expressed in RMB)

	Unaudited	
	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from/(used in) operations	9,533,448	(2,592,853)
Income tax paid	(1,249,124)	(1,333,394)
Net cash generated from/(used in) operating activities	8,284,324	(3,926,247)
Cash flows from investing activities		
Capital expenditures	(1,828,851)	(1,129,238)
Proceeds from disposal of property and equipment	7,237	4,368
Placement of short-term bank deposits	(35,824,004)	(24,307,105)
Withdrawal of short-term bank deposits	21,752,541	26,060,676
Placement of long-term bank deposits	(6,938,255)	(2,609,643)
Purchase of short-term investments measured at fair value through profit or loss	(105,079,565)	(53,600,058)
Proceeds from disposal of short-term investments measured at fair value through profit or loss	99,946,272	52,970,448
Purchase of short-term investments measured at fair value through other comprehensive income	(793,274)	(339,665)
Proceeds from maturity of short-term investments measured at fair value through other comprehensive income	728,323	—
Purchase of long-term investments measured at amortized cost	(132,283)	—
Purchase of short-term investments measured at amortized cost	(3,010,944)	—
Proceeds from maturity of short-term investments measured at amortized cost	970,005	—
Interest income received	542,012	601,361
Investment income received	359,848	208,575
Purchase of long-term investments measured at fair value through profit or loss	(4,813,753)	(3,630,997)
Proceeds from disposal of long-term investments measured at fair value through profit or loss	442,766	2,739,977
Purchase of investments accounted for using the equity method	(158,097)	(1,220,224)
Proceeds from disposal of investments accounted for using the equity method	1,654,366	—
Dividends received	188,327	39,765
Net cash used in investing activities	(31,987,329)	(4,211,760)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2021

(Expressed in RMB)

	Unaudited	
	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
Cash flows from financing activities		
Proceeds from borrowings	7,460,286	17,582,749
Repayment of borrowings	(5,447,710)	(12,245,760)
Finance expenses paid	(282,834)	(164,006)
Placement of restricted cash	—	(30,190)
Withdrawal of restricted cash	500,000	200,239
Net proceeds from exercise of share options	48,492	131,236
Payments for shares repurchase	(4,165,454)	(454,872)
Capital contribution from non-controlling interests	—	31,000
Contribution from fund investors	3,371,000	—
Payment of lease liabilities	(413,690)	(257,022)
Net cash generated from financing activities	1,070,090	4,793,374
Net decrease in cash and cash equivalents	(22,632,915)	(3,344,633)
Cash and cash equivalents at the beginning of the period	54,752,443	25,919,861
Effects of exchange rate changes on cash and cash equivalents	(238,488)	268,088
Cash and cash equivalents at end of the period	31,881,040	22,843,316

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 General information

Xiaomi Corporation (formerly known as Top Elite Limited) (the “**Company**”), was incorporated in the Cayman Islands on January 5, 2010 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

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

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

The condensed consolidated interim financial information comprises the condensed consolidated balance sheet as of June 30, 2021, the condensed consolidated income statements and the condensed consolidated statements of comprehensive income for the three-month and six-month periods then ended, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**Interim Financial Information**”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information was approved by the board of directors of the Company on August 25, 2021.

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

2 Basis of preparation

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

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. The Interim Financial Information should be read in conjunction with the annual audited financial statements of the Group for the year ended December 31, 2020 which have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) by the Group as set out in the 2020 annual report of the Company dated March 24, 2021 (the “**2020 Financial Statements**”).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

3 Significant accounting policies

The accounting policies and methods of computations used in the preparation of the Interim Financial Information are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020, as described in the 2020 Financial Statements, except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Group

The following amended standards are mandatory for the first time for the Group's financial year beginning on January 1, 2021:

- Covid-19-related Rent Concessions — Amendments to IFRS 16
- Interest Rate Benchmark Reform — Phase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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

4 Significant accounting estimates

The preparation of the Interim Financial Information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were substantially the same as those applied to the 2020 Financial Statements.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's policies on financial risk management were set out in the 2020 Financial Statements and there have been no significant changes in the financial risk management policies for the three months and six months ended June 30, 2021.

5.2 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as of each balance sheet date, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at June 30, 2021.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Unaudited)				
Assets				
Long-term investments measured at fair value through profit or loss (Note 16)	9,215,990	—	34,661,264	43,877,254
Short-term investments measured at fair value through profit or loss (Note 16)	—	—	27,410,872	27,410,872
Short-term investments measured at fair value through other comprehensive income (Note 16)	843,835	—	—	843,835
Bills receivables measured at fair value through other comprehensive income	—	—	140,000	140,000
	10,059,825	—	62,212,136	72,271,961

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

The following table presents the Group's financial assets that are measured at fair value at December 31, 2020.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
(Audited)				
Assets				
Long-term investments measured at fair value through profit or loss (Note 16)	6,377,087	—	28,838,232	35,215,319
Short-term investments measured at fair value through profit or loss (Note 16)	—	—	22,376,387	22,376,387
Short-term investments measured at fair value through other comprehensive income (Note 16)	797,456	—	—	797,456
Bills receivables measured at fair value through other comprehensive income	—	—	200,000	200,000
	7,174,543	—	51,414,619	58,589,162

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- Discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate; and
- A combination of observable and unobservable inputs, including risk-free rate, expected volatility, discount rate for lack of marketability, market multiples, etc..

Level 3 instruments of the Group's assets mainly include long-term investments measured at fair value through profit or loss and short-term investments measured at fair value through profit or loss.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the six months ended June 30, 2021 and 2020.

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	28,838,232	17,028,273
Additions	4,438,413	2,696,870
Disposals	(262,701)	(216,051)
Changes in fair value	2,902,682	923,080
Transfer to long-term investments accounted for using the equity method	(145,044)	—
Transfer to level 1 financial instruments	(975,148)	—
Exchange (losses)/gains	(135,170)	143,864
At the end of the period	34,661,264	20,576,036
Net unrealized gains for the period	2,879,951	881,858

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the six months ended June 30, 2021 and 2020.

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	22,376,387	16,463,390
Additions	105,079,565	53,600,058
Disposals	(100,306,120)	(53,179,023)
Changes in fair value	366,838	274,931
Exchange losses	(105,798)	—
At the end of the period	27,410,872	17,159,356
Net unrealized gains for the period	182,967	122,537

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies (Note 16) and certain listed companies for which sale is restricted for a specified period (Note 16), and short-term investments measured at fair value through profit or loss (Note 16). As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including discounted cash flows and market approach etc..

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of	As of		As of	As of	
	June 30, 2021	December 31, 2020		June 30, 2021	December 31, 2020	
	RMB'000 (Unaudited)	RMB'000 (Audited)				
Long-term investments measured at fair value through profit or loss	34,661,264	28,838,232	Expected volatility	37%–64%	28%–71%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	10%–25%	10%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	0.1%–3%	0.1%–5%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	27,410,872	22,376,387	Expected rate of return	1%–5%	1%–7%	The higher the expected rate of return, the higher the fair value

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

5 Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the six months ended June 30, 2021, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering or lifting of sale restriction of the investee companies.

The carrying amounts of the Group's financial assets that are not measured at fair value, including cash and cash equivalents, restricted cash, short-term bank deposits, long-term bank deposits, short-term investments measured at amortized cost, long-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities that are not measured at fair value, including borrowings, trade payables and other payables, approximate their fair values due to short maturities or the interest rates are close to the market interest rates.

6 Segment information

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

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

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

The revenues from external customers reported to CODM are measured as segment revenue, which is the revenue derived from the customers in each segment. Revenues from smartphones segment are derived from the sale of smartphones. Revenues from the IoT and lifestyle products segment primarily comprise revenues from sales of (i) the Group's other in-house products, including smart TVs, laptops, AI speakers and smart routers, and (ii) the Group's ecosystem products, including certain IoT and other smart hardware products, as well as certain lifestyle products. Revenues from internet services segment are derived from advertising services and internet value-added services (including online game and fintech business). Others segment primarily comprises revenue from the Group's hardware repair services for products, installation services for certain IoT products and sale of materials.

The Group's cost of sales for smartphones segment and IoT and lifestyle products segment primarily consist of (i) procurement cost of raw materials and components for the Group's in-house products, (ii) assembly cost charged by the Group's outsourcing partners for the Group's in-house products, (iii) royalty fees for certain technologies embedded in the Group's in-house products, (iv) costs, in the forms of production costs and profit-sharing, paid to the Group's partners for procuring ecosystem products, (v) warranty expenses, and (vi) provision for impairment of inventories. The Group's cost of sales for internet services segment primarily consist of (i) content fees to game developers, and (ii) bandwidth, server custody and cloud service related costs. Cost of sales for others segment primarily consists of hardware repair costs and costs from sale of materials. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated income statement. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the three months and six months ended June 30, 2021 and 2020. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

The segment results for the three months and six months ended June 30, 2021 and 2020 are as follows:

	Three months ended June 30, 2021				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	59,088,963	20,734,693	7,033,487	931,817	87,788,960
Cost of sales	(52,095,546)	(17,992,268)	(1,819,718)	(733,386)	(72,640,918)
Gross profit	6,993,417	2,742,425	5,213,769	198,431	15,148,042

	Three months ended June 30, 2020				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	31,627,549	15,252,868	5,907,621	749,767	53,537,805
Cost of sales	(29,336,590)	(13,515,173)	(2,347,499)	(637,097)	(45,836,359)
Gross profit	2,290,959	1,737,695	3,560,122	112,670	7,701,446

	Six months ended June 30, 2021				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	110,579,946	38,977,960	13,604,335	1,508,882	164,671,123
Cost of sales	(96,952,930)	(33,583,000)	(3,635,837)	(1,190,083)	(135,361,850)
Gross profit	13,627,016	5,394,960	9,968,498	318,799	29,309,273

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

	Six months ended June 30, 2020				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
(Unaudited)					
Segment revenues	61,952,272	28,237,076	11,808,317	1,242,307	103,239,972
Cost of sales	(57,208,924)	(24,758,105)	(4,876,643)	(1,136,397)	(87,980,069)
Gross profit	4,743,348	3,478,971	6,931,674	105,910	15,259,903

For the three months and six months ended June 30, 2021 and 2020, the geographical information on the total revenues is as follows:

	Three months ended June 30,				Six months ended June 30,			
	2021		2020		2021		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Mainland China	44,150,041	50.3	29,509,195	55.1	83,623,755	50.8	54,379,239	52.7
Rest of the world								
(Note (a))	43,638,919	49.7	24,028,610	44.9	81,047,368	49.2	48,860,733	47.3
	87,788,960		53,537,805		164,671,123		103,239,972	

Note:

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

6 Segment information (continued)

The major customers which contributed more than 10% of the total revenue of the Group for the three months and six months ended June 30, 2021 and 2020 are listed as below:

	Three months ended June 30,		Six months ended June 30,	
	2021 % (Unaudited)	2020 % (Unaudited)	2021 % (Unaudited)	2020 % (Unaudited)
Customer A	15.5	11.8	14.1	10.7

All the revenues derived from other single external customer were less than 10% of the Group's total revenues during the three months and six months ended June 30, 2021 and 2020.

7 Other income

	Three months ended June 30,		Six months ended June 30,	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Government grants	43,615	57,996	87,357	72,984
Value-added tax and other tax refunds	14,320	13,651	78,672	44,080
Dividend income	127,688	38,978	140,176	39,765
Additional deduction of input value-added tax	48,989	72,426	80,460	99,949
	234,612	183,051	386,665	256,778

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

8 Other gains/(losses), net

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Gains on disposal of investments accounted				
for using the equity method	1,199,290	282,003	1,381,867	282,003
Foreign exchanges (losses)/gains, net	(91,057)	33,793	(342,868)	(469,553)
Impairment on investments accounted				
for using the equity method	(8,794)	—	(8,794)	(25,976)
Others	(392)	(27,725)	4,143	(8,593)
	1,099,047	288,071	1,034,348	(222,119)

9 Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cost of inventories sold and royalty fees	68,385,690	41,487,524	127,548,414	79,858,191
Provision for impairment of inventories (Note 20)	621,761	1,097,450	938,879	1,506,789
Employee benefit expenses	3,572,379	2,171,783	6,955,690	4,381,704
Depreciation of property and equipment,				
right-of-use assets and investment properties	431,658	250,860	791,353	480,552
Amortization of intangible assets	296,382	122,256	594,017	244,484
Promotion and advertising expenses	2,085,949	1,068,606	3,218,610	1,920,378
Content fees to game developers and				
video providers	689,034	555,094	1,372,486	1,244,028
Credit loss allowance for loan receivables	7,909	691,763	66,462	1,183,317
Consultancy and professional service fees	300,132	224,610	587,687	418,820
Cloud service, bandwidth and server				
custody fees	470,554	464,190	1,044,336	918,102
Warranty expenses	1,325,411	684,410	2,397,937	1,322,288

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

10 Finance income and costs

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Finance income:				
Interest income from bank deposits	322,651	221,794	597,859	513,740
Finance costs:				
Interest expense from liabilities to fund investors (Note 27)	1,201,012	634,371	412,995	675,377
Interest expense from borrowings (Note 24) and lease liabilities (Note 21)	168,853	132,654	322,861	252,693
	1,369,865	767,025	735,856	928,070

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

11 Investments accounted for using the equity method

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Investments in associates accounted for using the equity method		
— Listed entities (Note (a))	8,838,309	7,994,282
— Unlisted entities	5,170,399	4,787,713
	14,008,708	12,781,995

	Six months ended June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
At the beginning of the period	12,781,995	9,300,507
Additions (Note (b))	1,379,916	1,889,079
Disposals	(203,069)	(178,192)
Share of net (losses)/profits	(17,204)	1,023,383
Share of other comprehensive (loss)/income	(54,551)	16,983
Share of changes of other reserves	178,566	63,559
Dividends from associates	(48,151)	(6,464)
Impairment provision	(8,794)	(25,976)
At the end of the period	14,008,708	12,082,879

Notes:

- (a) As at June 30, 2021, the fair value of the investments in associates which were listed entities was RMB25,402,868,000 (December 31, 2020: RMB27,255,565,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

11 Investments accounted for using the equity method (continued)

Notes (continued):

- (b) In January 2021, the Group entered into a share purchase agreement with Dong Yi Ri Sheng Home Decoration Group Co., Ltd. ("Dong Yi"), a company listed on Shenzhen Stock Exchange. The Group obtained significant influence over Dong Yi through board representation, and classified the investment as an investment accounted for using the equity method.

In April 2021, Smart Share Global Limited ("Energy Monster"), an investment engaging in providing mobile device charging service through an extensive online and offline network, for which the Group accounted as long-term investments measured at fair value through profit or loss, had been approved for listing on the Nasdaq Global Select Market under the symbol "EM". The conversion of the preference shares in Energy Monster owned by the Group into ordinary shares was completed, following which the Group reclassified the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.

Management has assessed the level of influence that the Group exercises on certain associates and determined that it has significant influence through the board representation and other relevant facts and circumstances, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

12 Income tax expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current income tax	1,239,533	527,121	2,145,435	1,059,527
Deferred income tax	175,701	(152,798)	547,772	(391,009)
Income tax expenses	1,415,234	374,323	2,693,207	668,518

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.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses (continued)

Notes:

(a) Enterprise income tax in mainland China ("EIT")

The income tax provision of the Group in respect of its operations in mainland China was calculated at tax rate of 25% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 26), are not subject to any income tax.

The Group entities established under the International Business Companies Acts of British Virgin Islands ("BVI") are exempt from BVI income taxes.

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax of which the tax rate was 16.5% up to April 1, 2018 when the two-tiered profits tax regime took effect, under which the tax rate is 8.25% for assessable profits in the first HK\$2 million and 16.5% for any assessable profits in excess.

(d) India income tax

The income tax provision for India entities were calculated at corporate income tax rates of 25% to 35% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(e) Preferential EIT rate

Certain subsidiaries in mainland China are entitled to preferential tax rates ranging from 10% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. ("Xiaomi Mobile") was qualified as a "Key Software Enterprise" in the third quarter of 2018 and renewed this qualification annually, hence it enjoys a preferential income tax rate of 10% from 2017 to 2020. The directors of the Company consider Xiaomi Mobile can still be qualified upon annual renewal and hence continues to enjoy the preferential income tax rate of 10% for the six months ended June 30, 2021.

Xiaomi Digital Technology Co., Ltd. ("Xiaomi Digital") was qualified as a "High and New Technology Enterprise" in November 2018, hence it enjoys a preferential income tax rate of 15% for three years from 2018 to 2020. Xiaomi Digital is in the process of renewing this qualification. The directors of the Company consider it can still be qualified upon renewal and hence continues to enjoy the preferential income tax rate of 15% for the six months ended June 30, 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

12 Income tax expenses (continued)

Notes (continued):

(f) Super Deduction for research and development expense

According to the relevant laws and regulations promulgated by the State Council of the People's Republic of China that was effective from 2008 onwards, enterprises engaging in research and development activities were entitled to claim 150% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("**Super Deduction**"). The State Taxation Administration of The People's Republic of China announced in September 2018 that enterprises engaging in research and development activities would entitle to claim 175% of their research and development expenses as Super Deduction from January 1, 2018 to December 31, 2020. The State Taxation Administration of The People's Republic of China announced in March 2021 to extend the preferential claim percentage to December 31, 2023. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the period.

(g) Withholding tax in mainland China ("**WHT**")

According to the New Corporate Income Tax Law ("**New EIT Law**"), distribution of profits earned by companies in mainland China since January 1, 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investors, upon the distribution of profits to overseas-incorporated immediate holding companies.

The Group does not have any plan in the foreseeable future to require its subsidiaries in mainland China to distribute their retained earnings and intends to retain them to operate and expand its business in mainland China. Accordingly, no deferred income tax liability related to WHT on undistributed earnings of these subsidiaries was accrued as of the end of each reporting period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

13 Earnings per share

(a) Basic

Basic earnings per share for the three months and six months ended June 30, 2021 and 2020 are calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the periods.

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	8,268,477	4,498,128	16,061,366	6,661,643
Weighted average number of ordinary shares in issue (thousand shares)	24,940,364	23,827,382	25,000,212	23,849,571
Basic earnings per share (expressed in RMB per share)	0.332	0.189	0.642	0.279

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

13 Earnings per share (continued)**(b) Diluted**

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net profit attributable to the owners of the Company	8,268,477	4,498,128	16,061,366	6,661,643
Add: Interest expenses on convertible bonds	39,262	—	78,352	—
Net profit used to determine diluted earnings per share	8,307,739	4,498,128	16,139,718	6,661,643
Weighted average number of ordinary shares in issue (thousand shares)	24,940,364	23,827,382	25,000,212	23,849,571
Adjustments for restricted shares units ("RSUs") and share options granted to employees (thousand shares)	579,996	692,017	614,400	725,455
Adjustments for share consideration for acquisition of an associate (thousand shares)	14,723	558	15,745	373
Adjustments for convertible bonds (thousand shares)	180,447	—	180,447	—
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	25,715,530	24,519,957	25,810,804	24,575,399
Diluted earnings per share (expressed in RMB per share)	0.323	0.183	0.625	0.271

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

14 Property and equipment

	Electronic equipment	Office equipment	Buildings	Leasehold improvements	Construction in progress (Note (a))	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Six months ended June 30, 2021						
Opening net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
Currency translation differences	(3,001)	(99)	—	(954)	(14)	(4,068)
Additions	199,754	277	—	363,512	461,327	1,024,870
Disposals	(5,592)	(13)	—	(18,892)	(5,438)	(29,935)
Depreciation charge	(141,027)	(1,114)	(43,319)	(123,898)	—	(309,358)
Closing net book amount	809,165	6,126	3,503,943	536,442	2,131,490	6,987,166
At June 30, 2021						
Cost	1,532,283	24,417	3,633,354	1,377,422	2,131,490	8,698,966
Accumulated depreciation	(723,118)	(18,291)	(129,411)	(840,980)	—	(1,711,800)
Net book amount	809,165	6,126	3,503,943	536,442	2,131,490	6,987,166
(Unaudited)						
Six months ended June 30, 2020						
Opening net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Currency translation differences	(396)	(186)	—	(1,713)	(2)	(2,297)
Additions	294,048	1,634	—	161,609	896,497	1,353,788
Transfer from construction in progress to buildings	—	—	642,272	—	(642,272)	—
Disposals	(4,212)	—	—	(11,190)	(15,850)	(31,252)
Transfer to investment properties	—	—	—	—	(75,752)	(75,752)
Depreciation charge	(88,814)	(1,032)	(28,113)	(117,034)	—	(234,993)
Closing net book amount	659,052	7,789	2,863,905	313,032	4,158,047	8,001,825
At June 30, 2020						
Cost	1,174,893	24,157	2,909,654	924,337	4,158,047	9,191,088
Accumulated depreciation	(515,841)	(16,368)	(45,749)	(611,305)	—	(1,189,263)
Net book amount	659,052	7,789	2,863,905	313,032	4,158,047	8,001,825

Note:

(a) Construction in progress as of June 30, 2021 and 2020 mainly comprises new office buildings being constructed in mainland China.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

15 Intangible assets

	Goodwill	License	Trademarks, patents and domain name	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Six months ended June 30, 2021					
Opening net book amount	253,251	3,317,008	535,005	160,355	4,265,619
Currency translation differences	—	(18)	(1,238)	(848)	(2,104)
Additions	—	120	—	20,231	20,351
Disposals	—	—	—	(821)	(821)
Amortization charge	—	(512,489)	(47,886)	(33,642)	(594,017)
Closing net book amount	253,251	2,804,621	485,881	145,275	3,689,028
At June 30, 2021					
Cost	253,251	4,549,626	1,148,430	408,946	6,360,253
Accumulated amortization	—	(1,745,005)	(662,549)	(263,671)	(2,671,225)
Net book amount	253,251	2,804,621	485,881	145,275	3,689,028
(Unaudited)					
Six months ended June 30, 2020					
Opening net book amount	248,167	699,401	550,810	173,624	1,672,002
Currency translation differences	—	(13)	2,413	579	2,979
Additions	—	7	633	56,442	57,082
Disposals	—	—	(1,548)	(29,777)	(31,325)
Amortization charge	—	(165,830)	(49,679)	(28,975)	(244,484)
Closing net book amount	248,167	533,565	502,629	171,893	1,456,254
At June 30, 2020					
Cost	248,167	1,427,014	1,079,506	367,553	3,122,240
Accumulated amortization	—	(893,449)	(576,877)	(195,660)	(1,665,986)
Net book amount	248,167	533,565	502,629	171,893	1,456,254

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

16 Investments

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Current assets		
Short-term investments measured at		
— Amortized cost (Note (a))	2,040,939	—
— Fair value through other comprehensive income(Note (b))	843,835	797,456
— Fair value through profit or loss (Note (c))	27,410,872	22,376,387
	30,295,646	23,173,843
Non-current assets		
Long-term investments measured at amortized cost (Note (b))	360,814	232,798
Long-term investments measured at fair value through profit or loss		
— Equity investments (Note (d))	19,946,228	13,969,457
— Preferred shares investments (Note (e))	23,931,026	21,245,862
	44,238,068	35,448,117

Notes:

- (a) Short-term investments measured at amortized cost are wealth management products, denominated in RMB and United States dollar ("US\$") with guaranteed returns ranging from 0.59% to 3.05% per annum for the six months ended June 30, 2021. The investments are held for collection of contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.
- (b) These investments measured at fair value through other comprehensive income and amortized cost are mainly debt securities, denominated in Hong Kong dollar ("HK\$") and US\$, where the contractual cash flows are solely payments of principal and interest. The securities are mainly issued by banks and the fair value of such debt securities was determined based on quoted price on interbank bond market. None of these investments are past due.

Debt securities that are only held for collection of contractual cash flows are measured at amortized cost. Debt securities that are held for both collection of contractual cash flows and for selling, are measured at fair value through other comprehensive income.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

16 Investments (continued)

Notes (continued):

- (c) The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB and US\$, with expected rates of return ranging from 1.05% to 5.12% for the six months ended June 30, 2021. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy (refer to Note 5.2 for details).

- (d) The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of June 30, 2021, the Group has not elected to recognize the fair value gains or losses on these equity investments in other comprehensive income.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 5.2.

- (e) For the six months ended June 30, 2021, the Group made aggregate preferred shares investments of RMB3,491,731,000. These investees are principally engaged in sales of goods and provision of internet services.

The preferred shares investments in these investees are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. For the major assumptions used in the valuation for investment in private companies, please refer to Note 5.2.

Amounts recognized in profit or loss of investments measured at fair value through profit or loss

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Fair value changes on equity investments	3,538,283	1,778,648	4,439,088	2,164,496
Fair value changes on preferred shares investments	473,173	430,153	1,422,700	274,607
Fair value changes on short-term investments measured at fair value through profit or loss	153,963	157,387	366,838	274,931
	4,165,419	2,366,188	6,228,626	2,714,034

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

17 Loan receivables

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Unsecured loan	10,384,544	11,350,989
Secured loan	545,369	377,183
Less: credit loss allowance	(2,254,510)	(2,809,084)
	8,675,403	8,919,088

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB. The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition. The Group measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("ECL") under IFRS 9 Financial Instruments. The key judgments and assumptions include determination of significant increase in credit risk, definition of default and credit-impaired assets, projecting the PD, LGD and EAD, forward-looking information incorporated in the ECL models, and grouping of instruments for losses measured on a collective basis.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

18 Trade receivables

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

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Trade receivables		
Up to 3 months	12,955,892	9,400,187
3 to 6 months	1,225,438	534,660
6 months to 1 year	372,620	234,844
1 to 2 years	162,309	110,291
Over 2 years	103,883	81,797
	14,820,142	10,361,779
Less: credit loss allowance	(198,680)	(200,760)
	14,621,462	10,161,019

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

Trade receivables balances as of June 30, 2021 and December 31, 2020 mainly represented amounts due from certain channel distributors and customers in mainland China and India who usually settle the amounts due by them within 180 days.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's expected loss rates are mainly determined based on the corresponding historical credit loss rates which are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the expected changes in macroeconomic factors, such as Consumer Price Index ("CPI"), Gross Domestic Product ("GDP") and Business Climate Index ("BCI"), and accordingly adjusts the historical loss rates based on expected changes in all factors identified.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

19 Prepayments and other receivables

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	14,100,355	7,363,158
Recoverable value-added tax and other taxes	6,019,945	5,649,195
Prepayments to suppliers	820,815	996,788
Deposits to suppliers	489,094	343,141
Receivables from market development fund	237,416	304,787
Prepaid fees for patent expenses and other prepaid expenses	708,297	436,447
Receivables from employees related to Employee Fund (Note 26)	100,450	100,750
Interest receivables	547,736	444,441
Receivables related to share options and RSUs granted to employees	106,218	300,772
Others	1,022,270	242,041
	24,152,596	16,181,520

Note:

- (a) As of June 30, 2021, among the total amount of "Prepayments and other receivables", in addition to the loans to related parties (Note 32), the other receivables from related parties amounted to RMB424,291,000 (December 31, 2020: RMB324,591,000).

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

20 Inventories

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Raw materials	26,659,515	15,684,698
Finished goods	21,596,561	17,909,963
Work in progress	3,889,970	4,135,024
Spare parts	2,744,031	1,967,593
Others	3,165,601	3,199,153
	58,055,678	42,896,431
Less: provision for impairment (Note (a))	(1,253,744)	(1,225,712)
	56,801,934	41,670,719

Note:

- (a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statement. The provision for impairment expenses of inventory amounted to RMB938,879,000 and RMB1,506,789,000 for the six months ended June 30, 2021 and 2020, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

21 Leases

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
<i>(i) The consolidated balance sheet includes the following amounts relating to leases:</i>		
Right-of-use assets (Note (a))		
Land use rights	4,924,187	4,490,143
Servers and other equipment	1,299,538	—
Properties	911,672	865,533
Other assets	6,264	9,948
	7,141,661	5,365,624
Lease liabilities (Note (b))		
Current	(895,722)	(363,397)
Non-current	(1,399,592)	(516,482)
	(2,295,314)	(879,879)

Notes:

- (a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.
- (b) Current lease liabilities and non-current lease liabilities are included in the line item 'Other payables and accruals' and 'Other non-current liabilities' in the consolidated balance sheet, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

21 Leases (continued)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<i>(ii) The consolidated income statement includes the following amounts relating to leases:</i>				
Depreciation charge of right-of-use assets	267,912	100,809	467,960	217,442
Interest expense (included in finance costs)	29,086	11,667	48,199	23,288
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	90,407	198,913	274,458	384,947
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	66,059	—	89,775	—

22 Other non-current assets

	As of June 30,	As of December 31,
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Right-of-use assets (Note 21)	7,141,661	5,365,624
Investment properties	1,198,893	1,213,247
Others	714,649	396,980
	9,055,203	6,975,851

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

23 Share capital and treasury shares

(a) Share capital

Authorized:

As of January 1, 2021 and June 30, 2021, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US\$0.0000025 per share.

Issued:

	Number of ordinary shares '000	Nominal value of ordinary shares US\$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2021	25,187,308	62	409	64,655,891
Exercise of share options and RSUs	31,085	—	2	271,552
Shares repurchased and cancelled	(192,690)	—	(3)	(4,165,451)
Issuance of ordinary shares to Share Scheme Trusts (i)	39,236	—	—	—
Release of ordinary shares from Share Scheme Trusts (i)	—	—	—	421,805
Shares issued for acquisition of an associate	9,420	—	—	111,429
As of June 30, 2021 (unaudited)	25,074,359	62	408	61,295,226
As of January 1, 2020	24,107,395	59	388	43,578,836
Exercise of share options and RSUs	110,434	—	2	783,397
Shares repurchased and cancelled	(158,727)	—	—	(1,349,709)
Release of ordinary shares from Share Scheme Trusts (i)	—	—	—	309,129
Shares issued for acquisition of an associate	27,294	—	1	320,384
As of June 30, 2020 (unaudited)	24,086,396	59	391	43,642,037

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

23 Share capital and treasury shares (continued)

(a) Share capital (continued)

Issued: (continued)

Note:

- (i) The Company issued ordinary shares with respect to the share options and RSUs under the employees share-based compensation scheme to be exercised by certain grantees of the Company to trusts, which were established to hold the shares for and on behalf of the grantees (collectively, "Share Scheme Trusts").

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2021	4,289	36,224
Shares repurchased	192,690	4,165,454
Shares cancelled	(192,690)	(4,165,454)
As of June 30, 2021 (unaudited)	4,289	36,224
As of January 1, 2020	130,240	1,052,822
Shares repurchased	48,410	454,872
Shares cancelled	(158,727)	(1,345,663)
As of June 30, 2020 (unaudited)	19,923	162,031

During the six months ended June 30, 2021, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares '000	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$
March 2021	19,308	26.20	25.50	498,900,661
April 2021	173,382	27.20	24.60	4,494,026,504
	192,690			4,992,927,165

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

24 Borrowings

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities (Note (a))	—	465,000
Secured borrowings (Note (c))	1,603,935	1,594,936
Unsecured borrowings (Note (d))	7,560,717	4,530,856
Convertible bonds (Note (e))	4,097,494	4,044,014
	13,262,146	10,634,806
Included in current liabilities		
Asset-backed securities (Note (a))	1,327,962	3,589,629
Fund raised through trusts (Note (b))	228,118	547,500
Secured borrowings (Note (c))	505,066	460,257
Unsecured borrowings (Note (d))	3,990,436	2,364,551
	6,051,582	6,961,937

Notes:

- (a) The Group has securitized certain loan receivables and completed several rounds of issuance of its asset-backed securities ("ABS"). As of June 30, 2021, the total ABS amounting to RMB1,327,962,000 (December 31, 2020: RMB4,054,629,000) bore interest at 3.25%-7.2% per annum.
- (b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. As of June 30, 2021, the fund raised through trust amounting to RMB228,118,000 (December 31, 2020: RMB547,500,000) bore interest 7.00% per annum. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The balance will mature before December 2021.
- (c) As of June 30, 2021, RMB2,109,001,000 (December 31, 2020: RMB2,055,193,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB8,338,257,000 (December 31, 2020: RMB8,343,327,000). The interest rate of these borrowings was 4.05%—4.66% per annum. Among of these borrowings, RMB36,873,000 should be repaid by September 7, 2021, RMB200,000,000 should be repaid by November 10, 2021, RMB15,660,000 should be repaid by December 29, 2021, RMB36,873,000 should be repaid by March 7, 2022, RMB200,000,000 should be repaid by May 10, 2022, RMB15,660,000 should be repaid by June 29, 2022, RMB667,728,000 should be repaid by March 23, 2027, RMB523,527,000 should be repaid by December 12, 2027 and RMB412,680,000 should be repaid by July 6, 2035.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

24 Borrowings (continued)

Notes (continued):

- (d) The Group issued US\$600,000,000 (equivalent to approximately RMB3,876,060,000) senior notes to professional investors on April 29, 2020 with a term to maturity of ten years and at interest rate 3.375% per annum. The net proceeds of the notes issued, after deducting underwriting commissions and certain offering expenses, was approximately US\$589,900,000 (equivalent to approximately RMB3,810,813,000).

The Group had RMB190,000,000 (December 31, 2020: RMB190,000,000) unsecured borrowings with interest rate 5.10% per annum, RMB133,212,000 (December 31, 2020: RMB133,212,000) unsecured borrowings with interest rate 3.85% per annum, RMB300,000,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.85% per annum, RMB1,000,000,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.50% per annum, RMB40,827,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.50% per annum, RMB266,889,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.60% per annum, RMB1,257,000 (December 31, 2020: nil) unsecured borrowings with interest rate 4.00% per annum, all of these borrowings should be repaid by the Group in 2021.

The Group had US\$112,224,000 which was equivalent to approximately RMB725,109,000 (December 31, 2020: nil) unsecured borrowings with interest rate 1 month London Inter Bank Offered Rate ("LIBOR") +0.33% per annum, which should be repaid by September 17, 2021; US\$141,939,000 which was equivalent to approximately RMB916,942,000 (December 31, 2020: nil) unsecured borrowings with interest rate 0.3% per annum, which should be repaid by September 23, 2021, US\$480,000,000 which was equivalent to RMB3,100,848,000 (December 31, 2020: nil) unsecured borrowings with interest rate 1 month LIBOR + 1.1% per annum, which should be repaid by May 19, 2025.

The Group had RMB400,000,000 (December 31, 2020: nil) of borrowings with interest rate 5.50% per annum secured by intra-group companies, which should be repaid by June 22, 2022. The Group had RMB500,000,000 (December 31, 2020: RMB500,000,000) of borrowings with interest rate 2.69% per annum secured by intra-group companies, which should be repaid by November 20, 2023.

The Group had RMB198,650,000 (December 31, 2020: RMB206,000,000) unsecured borrowings with interest rate 4.66% per annum. Among of these borrowings, RMB8,100,000 should be repaid by December 20, 2021, RMB8,100,000 should be repaid by June 20, 2022, and RMB182,450,000 should be repaid by November 26, 2029.

- (e) On December 17, 2020, the Group completed the issuance of 7-Year US\$855,000,000 (equivalent to approximately RMB5,578,790,000) zero coupon guaranteed convertible bonds due on December 17, 2027 (the "Bonds") to third party professional investors (the "bondholders"). The bondholders have the right, at any time on or after January 27, 2021 up to the 10 days prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Group at a conversion price of HK\$36.74 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by the Group upon the maturity of the Bonds on December 17, 2027, if not previously redeemed, converted or purchased and cancelled.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

24 Borrowings (continued)

Notes (continued):

(e) (continued)

The liabilities and equity components of the Bonds are presented as follows:

	RMB'000
The face value of convertible bond issued on the issue date	5,578,790
Issue premium	292,886
Gross proceeds	5,871,676
Less: transaction cost	(70,654)
Net proceeds	5,801,022
Less: equity component	(1,764,799)
Liability component on initial recognition	4,036,223
Interest expense	7,791
Liability component as of December 31, 2020	4,044,014

The convertible bonds recognized in the balance sheet are calculated as follows:

	RMB'000
Liability component as of January 1, 2021	4,044,014
Interest accrued	93,835
Effect of foreign currency translation	(40,355)
Liability component as of June 30, 2021	4,097,494

For the six months ended June 30, 2021, the interest rate of the interest-bearing liabilities ranges from 0.30% to 7.50% per annum.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

25 Deferred income tax

The amount of offsetting deferred income tax assets and liabilities is RMB81,986,000 as of June 30, 2021 (December 31, 2020: RMB66,396,000).

The gross movement on the deferred income tax assets is as follows:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	2,077,468	1,406,377
(Debited)/credited to the consolidated income statement	(416,770)	155,872
At the end of the period	1,660,698	1,562,249

The gross movement on the deferred income tax liabilities is as follows:

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	(366,952)	(702,863)
(Debited)/credited to the consolidated income statement	(131,002)	235,137
At the end of the period	(497,954)	(467,726)

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments

On May 5, 2011, the Board of Directors of the Company approved the establishment of the “Xiaomi Corporation 2011 Employee Stock Option Plan” (“**2011 Plan**”) with the purpose of attracting, motivating, retaining and rewarding certain employees and directors. The 2011 Plan is valid and effective for 10 years from the approval of the Board of Directors. The maximum number of shares that may be issued under 2011 Plan shall be 35,905,172 Class B ordinary shares (which were adjusted to 1,436,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The 2011 Plan permits the awards of options and RSUs.

Subsequently in August 2012, the 2011 Plan was superseded in its entirety as the “2012 Employee Stock Incentive Plan” (“**Pre-IPO ESOP**”). The purpose of Pre-IPO ESOP is same as the 2011 Plan. The Pre-IPO ESOP is valid and effective for 10 years from the approval of the Board of Directors. Through Pre-IPO ESOP, the Company may grant equity-based incentive up to 45,905,172 Class B ordinary shares initially (which were adjusted to 1,836,206,880 shares after the 1 to 4 share split on March 14, 2014 and further 1 to 10 Share Subdivision on June 17, 2018). The aggregate number of reserved Class B ordinary shares approved was 2,512,694,900 as of June 30, 2021 and December 31, 2020. The Pre-IPO ESOP permits the awards of options and RSUs.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Post-IPO Share Option Scheme. The purpose of Post-IPO Share Option Scheme is to provide selected participants with the opportunity to acquire proprietary interests in the Company and to encourage selected participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The total number of Class B ordinary shares available for grant under Post-IPO Share Option Scheme was 1,568,094,311 Class B ordinary shares.

On June 17, 2018, the Board of Directors of the Company adopted the principal terms of the Share Award Scheme. The purpose of the Share Award Scheme are (1) to align the interests of eligible persons with those of the Group through ownership of Class B ordinary shares, dividends and other distributions paid on shares and/or the increase in value of the Class B ordinary shares, and (2) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group. The aggregate number of Class B ordinary shares underlying all grants made pursuant to the Share Award Scheme will not exceed 1,118,806,541 shares without shareholders' approval.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments (continued)**Pre-IPO ESOP****Share options granted to employees**

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (US\$)
Outstanding as of January 1, 2021	605,831,870	0.10
Forfeited during the period	(15,646,733)	0.20
Transferred to Share Scheme Trusts	(11,443,000)	0.10
Exercised during the period	(31,084,671)	0.19
Outstanding as of June 30, 2021 (unaudited)	547,657,466	0.09
Exercisable as of June 30, 2021 (unaudited)	278,020,502	0.26
Outstanding as of January 1, 2020	855,801,907	0.12
Forfeited during the period	(14,147,000)	0.33
Transferred to Share Scheme Trusts	(21,172,600)	0.10
Exercised during the period	(110,434,240)	0.15
Outstanding as of June 30, 2020 (unaudited)	710,048,067	0.11
Exercisable as of June 30, 2020 (unaudited)	322,020,977	0.24

The weighted-average remaining contract life for outstanding share options was 4.96 years and 5.48 years as of June 30, 2021 and December 31, 2020, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Fair value of share options

Prior to the completion of IPO on July 9, 2018, the Group has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted equity allocation model to determine the fair value of the underlying ordinary shares. Key assumptions, such as discount rate and projections of future performance, are determined by the Group with best estimate.

Based on fair value of the underlying ordinary shares, the Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date.

The total expenses recognized in the consolidated income statements for Pre-IPO ESOP granted to the Group's employees are RMB295,775,000 and RMB679,000,000 for the six months ended June 30, 2021 and 2020, respectively.

Share based awards granted to Lei Jun

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance Inc. (“Xiaomi Finance”) pursuant to the first share option scheme adopted by Xiaomi Finance. Such share options were vested immediately and Lei Jun can exercise these share options with exercise price of RMB3.8325 for each share option for the following 20 years commencing on June 17, 2018. No share option was exercised for the six months ended June 30, 2021 and 2020, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments (continued)**Share Award Scheme****RSUs granted to employees**

Movements in the number of RSUs granted to the Company's employees under Share Award Scheme and the respective weighted-average grant date fair value are as below:

	Number of RSUs	Weighted average grant date fair value per RSU (US\$)
Outstanding as of January 1, 2021	175,401,118	1.65
Granted during the period	16,866,309	4.37
Forfeited during the period	(11,284,208)	2.46
Transferred to Share Scheme Trust	(29,334,138)	1.45
Outstanding as of June 30, 2021 (unaudited)	151,649,081	1.93
Outstanding as of January 1, 2020	90,106,933	1.20
Granted during the period	85,665,525	1.37
Forfeited during the period	(13,406,466)	1.21
Transferred to Share Scheme Trust	(1,819,250)	1.45
Outstanding as of June 30, 2020 (unaudited)	160,546,742	1.29
Vested as of June 30, 2020 (unaudited)	616,050	1.15

The weighted-average remaining contract life for outstanding RSUs was 8.67 years and 9.06 years as of June 30, 2021 and December 31, 2020, respectively.

The total expenses recognized in the consolidated income statements for Share Award Scheme RSUs granted to the Group's employees are RMB349,876,000 and RMB299,118,000 for the six months ended June 30, 2021 and 2020, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments (continued)**Post-IPO Share Option Scheme****Share options granted to employees**

Movements in the number of share options granted to employees and their related weighted average exercise prices are as below:

	Number of share options	Average exercise price per share option (HK\$)
Outstanding as of January 1, 2021	227,250,000	24.26
Granted during the period	6,250,000	33.90
Forfeited during the period	(110,000,000)	24.50
Outstanding as of June 30, 2021 (unaudited)	123,500,000	24.53
Exercisable as of June 30, 2021 (unaudited)	—	—

The weighted-average remaining contract life for outstanding share options was 9.20 years and 9.68 years as of June 30, 2021 and December 31, 2020, respectively.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments (continued)**Post-IPO Share Option Scheme (continued)****Share options granted to employees (continued)***Fair value of share options*

The Group has used Binomial option-pricing model to determine the fair value of the share option as of the grant date. Key assumptions are set as below:

	Six months ended June 30, 2021
Fair value per share	HK\$33.90
Exercise price	HK\$33.90
Risk-free interest rate	0.78%
Dividend yield	—
Expected volatility	43.03%
Expected terms	10 years

The weighted-average fair value of granted share options was HK\$15.07 per share for the six months ended June 30, 2021.

The total expenses recognized in the consolidated income statements for share options granted to the Group's employees under Post-IPO Share Option Scheme are RMB11,981,000 for the six months ended June 30, 2021.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

26 Share-based payments (continued)**Employee fund**

On August 31, 2014, the board of directors of the Company approved the establishment of the Xiaomi Development Fund (“**Employee Fund**”) with the purpose of which is to invest in companies within the business ecosystem of the Group. The Company invited certain employees to participate, with the condition that they would only receive the original investment sum with interest should they decide to resign from the Group within 5 years from the establishment date (the “**Lockup Period**”). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. According to the arrangement of Employee Fund, the equity holders of the Employee Fund can demand the Company to buy back the shares at fair value or continue to hold the shares when they resign after the Lockup Period. The Group measures the liability related to cash-settled share-based payments at fair value as of June 30, 2021.

The total expenses recognized in the consolidated income statements for the Employee Fund granted to the Group’s employees are RMB630,853,000 and RMB110,386,000 for the six months ended June 30, 2021 and 2020, respectively.

27 Other non-current liabilities

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Liabilities to fund investors (Note (a))	13,148,528	9,364,533
Lease liabilities (Note 21)	1,399,592	516,482
Others	219,077	120,413
	14,767,197	10,001,428

Note:

- (a) It represents the funds raised by the third party investors under Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the “**Hubei Fund**”). The Group controls the Hubei Fund as the Group is exposed to and has rights to variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. For the amount raised from limited partners, the Group has contractual obligation to settle the liability with the limited partners and therefore is classified as a financial liability measured at amortized cost in the consolidated financial statements. The carrying amount of this financial liability approximates to its fair value.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

28 Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of June 30, 2021 and December 31, 2020, the carrying amounts of trade payables were primarily denominated in RMB, US\$ and India Rupees.

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

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Up to 3 months	75,245,432	68,909,758
3 to 6 months	9,685,945	2,312,665
6 months to 1 year	6,044,536	873,537
1 to 2 years	298,132	34,200
Over 2 years	99,942	68,696
	91,373,987	72,198,856

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

29 Other payables and accruals

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Amounts collected for third parties	1,838,650	2,642,533
Payroll and welfare payables	2,212,744	1,728,843
Deposits payable	3,435,223	1,956,126
Employee fund (Note 26)	1,564,685	936,714
Accrual expenses	1,184,210	1,106,137
Payables for construction cost	1,492,376	1,807,120
Payables for investments	126,250	116,250
Other taxes payables	740,871	547,339
Lease liabilities (Note 21)	895,722	363,397
Payables related to share options and RSUs granted to employees	109,259	204,385
Deposits from customers	1,929,717	1,327,919
Others	1,318,981	882,892
	16,848,688	13,619,655

30 Contingencies

The Group, in the ordinary course of its business, is involved in various claims, suits, and legal proceedings that arise from time to time. Although based on currently available information, the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or result of operations. Litigations are inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period. As of June 30, 2021 and December 31, 2020, no material provisions were recorded.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

31 Commitments**(a) Capital commitments**

Capital expenditure contracted for at the end of the year/period but not yet incurred is as follows:

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Property and equipment	828,040	1,558,000
Intangible assets	33,383	33,437
Investments	1,432,797	529,026
	2,294,220	2,120,463

(b) Operating lease commitments

The Group leases offices, warehouses, retail stores and servers under non-cancellable operating lease agreements. The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
Not later than 1 year	8,429	620,398
Later than 1 year and not later than 5 years	6,600	41,660
Later than 5 years	—	14,924
	15,029	676,982

From January 1, 2019, in accordance with IFRS 16 Lease, the Group has recognized right-of-use assets and lease liabilities for these leases, except for certain short-term leases, see Note 21 for further information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

32 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Parties are also considered to be related if they are subject to common control. Members of key management and their close family members of the Group are also considered as related parties.

The following significant transactions were carried out between the Group and its related parties during the periods presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(a) Significant transactions with related parties

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(i) Sales of goods and services		
Associates of the Group	763,245	716,545
Associates of Lei Jun	35,221	—
	798,466	716,545
(ii) Purchases of goods and services		
Associates of the Group	23,662,192	15,351,898
Associates of Lei Jun	7,258	1,719
	23,669,450	15,353,617

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

32 Related party transactions (continued)

(b) Period/year end balances with related parties

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
(i) Trade receivables from related parties		
Associates of the Group	237,790	234,741
Associates of Lei Jun	8,236	3,782
	246,026	238,523
(ii) Trade payables to related parties		
Associates of the Group	8,812,766	8,052,768
Associates of Lei Jun	2,298	1,494
	8,815,064	8,054,262
(iii) Other receivables from related parties		
Associates of the Group	388,982	335,788
Associates of Lei Jun	46,412	—
	435,394	335,788
(iv) Other payables to related parties		
Associates of the Group	401,269	397,540
Associates of Lei Jun	84,752	91,047
	486,021	488,587
(v) Prepayments		
Associates of the Group	180,956	206,310

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

32 Related party transactions (continued)

(b) Period/year end balances with related parties (continued)

	As of June 30, 2021 RMB'000 (Unaudited)	As of December 31, 2020 RMB'000 (Audited)
(vi) Advance from customers		
Associates of the Group	986,210	986,340
Associates of Lei Jun	3,562	3,040
	989,772	989,380

All the balances with related parties above were unsecured, non-interest bearing and repayable within one year.

(c) Loans to related parties

	Six months ended June 30, 2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Loans to associates:		
At the beginning of the period	11,197	37,802
Loans repaid	(4,126)	—
Interest charged	—	16
Less: allowance for impairment	4,126	(6,787)
Currency translation differences	(94)	150
	11,103	31,181

NOTES TO THE INTERIM FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

32 Related party transactions (continued)**(d) Key management compensation**

	Six months ended June 30,	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries	20,316	12,692
Discretionary bonuses	12,189	—
Share-based compensation	191,472	132,321
Employer's contribution to pension schedule	838	458
	224,815	145,471

33 Events after the reporting period

On July 5, 2021, the Company completed the acquisition of the remaining 50.09% equity interest of Zimi International Incorporation ("Zimi") at a total consideration of approximately US\$204.73 million (equivalent to approximately RMB1,300 million). Prior to the above acquisition, the Company held 49.91% equity interests of Zimi, which had been recorded as investments accounted for under the equity method. The goodwill and fair value of the acquired identifiable intangible assets will be determined based on the valuation performed on the assets acquired, and related valuation has not been finalized as of the date of approval of this interim financial information.

The Group issued RMB1,000,000,000 bonds in mainland China with a term to maturity of 365 days on July 9, 2021, US\$800,000,000 of senior bonds due 2031 and US\$400,000,000 of senior green bonds due 2051 on July 14, 2021, bearing interest of 2.900%, 2.875% and 4.100% per annum, respectively.

On August 25, 2021, the Company entered into the share purchase agreements with the relevant parties, pursuant to which, the Company conditionally agreed to acquire, and each of the ordinary shareholder vendors and preferred shareholder vendors has conditionally agreed to sell 125,494,231 ordinary shares and 50,854,701 preferred shares representing 71.16% and 28.84% respectively of the entire issued share capital of the Deepmotion Tech Limited ("Deepmotion", an autonomous driving technology company). The total consideration for the acquisition is approximately US\$77.37 million. The closing of the above share purchase agreements (the "Closing") shall be subject to the fulfilment or, where applicable, waiver of certain closing conditions. Upon Closing, Deepmotion will become a wholly-owned subsidiary of the Group.

DEFINITIONS

“affiliate”	with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Articles” or “Articles of Association”	the articles of association of the Company adopted on June 17, 2018 with effect from Listing, as amended from time to time,
“Beijing Digital Technology”	Beijing Xiaomi Digital Technology Co. Ltd.* (北京小米數碼科技有限公司), a limited liability company established under the laws of mainland China on December 21, 2010 and our indirect wholly-owned subsidiary
“Beijing Duokan”	Beijing Doukan Technology Co., Ltd.* (北京多看科技有限公司), a limited liability company established under the laws of mainland China on February 10, 2010 and our Consolidated Affiliated Entity
“Beijing Electronic Software”	Beijing Xiaomi Electronic Software Co., Ltd.* (北京小米電子軟件技術有限公司), a limited liability company established under the laws of mainland China on July 1, 2014 and our Consolidated Affiliated Entity
“Beijing Wali Culture”	Beijing Wali Culture Communication Co., Ltd.* (北京瓦力文化傳播有限公司), a limited liability company established under the laws of mainland China on May 8, 2014 and our Consolidated Affiliated Entity
“Beijing Wali Internet”	Beijing Wali Internet Technologies Co., Ltd.* (北京瓦力網絡科技有限公司), a limited liability company established under the laws of mainland China on June 1, 2009 and our Consolidated Affiliated Entity
“Beijing Wenmi”	Beijing Wenmi Culture Co., Ltd* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our indirect wholly-owned subsidiary

“Board”	our board of Directors
“CG Code”	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
“Class A Shares”	class A ordinary shares of the share capital of the Company with a par value of US\$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company’s general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
“Class B Shares”	class B ordinary shares of the share capital of the Company with a par value of US\$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company’s general meetings
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, or “the Company”	Xiaomi Corporation 小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010
“Compliance Advisor”	Guotai Junan Capital Limited, being the compliance advisor of the Company
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Consolidated Affiliated Entities”, each a “Consolidated Affiliated Entity”	the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries

DEFINITIONS

“Contractual Arrangements”	the set of agreements entered into by each of the WFOEs and the Onshore Holdcos for the purpose of operations of the Restricted Business of the Group in the PRC
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an interested in the Company, namely, Smart Mobile Holdings Limited and Smart Player Limited
“Director(s)”	the director(s) of the Company
“Group”, “our Group”, or “the Group”	the Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements) from time to time
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Latest Practicable Date”	September 13, 2021, being the latest practicable date prior to the bulk printing and publication of this interim report
“Listing”	the listing of the Class B Shares on the Main Board of the Stock Exchange
“Listing Date”	July 9, 2018, the date on which the Shares were listed on the Stock Exchange
“Listing Rules”	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Onshore Holdcos,” each a “Onshore Holdco”	(i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Doukan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, (vii) Beijing Electronic Software and (viii) Youpin Information Technology
“Pinecone International”	Pinecone International Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on November 7, 2014 and our indirect wholly-owned subsidiary
“Pinecone Share Option Scheme I”	the share option scheme adopted by Pinecone International on July 30, 2015 as amended from time to time
“Pinecone Share Option Scheme II”	the share option scheme adopted by Pinecone International on June 17, 2018 as amended from time to time
“Post-IPO Share Option Scheme”	the share option scheme adopted by the Company on June 17, 2018 as amended from time to time
“PRC”	the People’s Republic of China
“PRC Legal Advisor”	JunHe LLP
“Pre-IPO ESOP”	the pre-IPO employee stock incentive scheme adopted by the Company dated May 5, 2011 and superseded on August 24, 2012, as amended from time to time
“Prospectus”	the prospectus of the Company dated June 25, 2018

DEFINITIONS

“Registered Shareholders”	the registered shareholders of the Onshore Holdcos
“Reserved Matters”	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company’s auditors, and (iv) the voluntary liquidation or winding-up of the Company
“Rigo Design”	Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計(北京)有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity
“RMB” or “Renminbi”	Renminbi, the lawful currency of mainland China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Award Scheme”	the share award scheme adopted by the Company on June 17, 2018
“Share(s)”	the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under section 15 of the Companies Ordinance

“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Tianjin Commercial Factoring”	Xiaomi Commercial Factoring (Tianjin) Co., Ltd.* (小米商業保理(天津)有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”	United States dollars, the lawful currency of the United States
“weighted voting rights”	has the meaning ascribed to it under the Listing Rules
“WFOEs”, each a “WFOE”	Beijing Baien, Xiaomi Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications and Xiaomi Youpin Technology
“WVR Beneficiary”	has the meaning ascribed to it under the Listing Rules
“Xiaomi Communications”	Xiaomi Communications Co., Ltd.* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary
“Xiaomi Finance”	Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary
“Xiaomi Inc.”	Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland china on March 3, 2010 and our Consolidated Affiliated Entity

DEFINITIONS

“Xiaomi Pictures”	Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity
“Xiaomi Youpin Technology”	Xiaomi Youpin Technology Co. Ltd.* (小米有品科技有限公司), a limited liability company established under the laws of mainland China on May 8, 2018 and our indirect wholly-owned subsidiary
“XMF Share Option Scheme I”	the first share option scheme adopted by Xiaomi Finance on June 17, 2018, as amended from time to time
“XMF Share Option Scheme II”	the second share option scheme adopted by Xiaomi Finance on June 17, 2018
“Zimi”	Zimi International Incorporation, a company incorporated in Cayman Islands with limited liability, which became a wholly-owned subsidiary of the Group as of July 5, 2021
“%”	per cent

