XIAOMI CORPORATION

2018 INTERIM REPORT

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

Stock Code: 1810

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.

XIAOMI CORPORATION
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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Lei Jun (雷軍) *(Chairman of the Board)*
Lin Bin (林斌)

Non-Executive Directors

Koh Tuck Lye (許達來)
Liu Qin (劉芹)

Independent Non-Executive Directors

Chen Dongsheng (陳東升)
Lee Ka Kit (李家傑)
Wong Shun Tak (王舜德)

AUDIT COMMITTEE

Wong Shun Tak (王舜德) *(Committee Chairman)*
Chen Dongsheng (陳東升)
Koh Tuck Lye (許達來)

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Lee Ka Kit (李家傑) *(Committee Chairman)*
Lin Bin (林斌)
Wong Shun Tak (王舜德)

CORPORATE GOVERNANCE COMMITTEE

Chen Dongsheng (陳東升) *(Committee Chairman)*
Lee Ka Kit (李家傑)
Wong Shun Tak (王舜德)

JOINT COMPANY SECRETARIES

Lin Steve (林冠男)
So Ka Man (蘇嘉敏)

AUTHORIZED REPRESENTATIVES

Lin Bin (林斌)
So Ka Man (蘇嘉敏)

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

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

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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**

	Three months ended				
	June 30, 2018	June 30, 2017	Year-on-year change	March 31, 2018	Quarter-on-quarter change
	(RMB in millions, unless specified)				
	(Unaudited)	(Unaudited)		(Audited)	
Revenue	**45,235.5**	26,879.0	68.3%	34,412.3	31.5%
Gross profit	**5,651.8**	3,847.6	46.9%	4,301.4	31.4%
Operating (loss)/profit	**(7,592.0)**	3,659.3	-307.5%	3,364.5	-325.6%
Profit/(loss) before income tax	**14,908.4**	(11,340.4)	N/A	(6,689.1)	N/A
Profit/(loss) for the period	**14,632.6**	(11,966.6)	N/A	(7,027.4)	N/A
Non-IFRS Measure:					
Adjusted profit	**2,116.8**	1,691.5	25.1%	1,699.3	24.6%

	Six months ended		
	June 30, 2018	June 30, 2017	Year-on-year change
	(RMB in millions, unless specified)		
	(Unaudited)	(Unaudited)	
Revenue	**79,647.8**	45,410.8	75.4%
Gross profit	**9,953.2**	6,311.7	57.7%
Operating (loss)/profit	**(4,227.5)**	5,613.8	-175.3%
Profit/(loss) before income tax	**8,219.4**	(18,862.5)	N/A
Profit/(loss) for the period	**7,605.2**	(19,833.6)	N/A
Non-IFRS Measure:			
Adjusted profit	**3,816.1**	2,352.0	62.2%

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our interim report for the three and six months ended June 30, 2018 to the Shareholders.

Business Review and Outlook

1. Overall financial performance

In the second quarter of 2018, we achieved RMB45.2 billion in revenue, representing growth of 68.3% year-on-year. Adjusted profit grew 25.1% to RMB2.1 billion year-on-year. All business segments achieved strong revenue growth, with the fastest growth seen in our IoT and lifestyle products segment.

2. Smartphones

Our smartphones segment recorded approximately RMB30.5 billion in revenue for the second quarter of 2018, representing year-on-year growth of 58.7%. This growth was driven by an increase in both smartphone sales volume and our average selling price ("ASP"). Smartphone sales volume for the quarter reached 32.0 million units, up 43.9% on a year-on-year basis. According to IDC Consulting (Beijing) Ltd. ("IDC"), we are the fastest growing amongst the top five mobile phone companies globally.

"Amazing products, honest pricing" remains our core pursuit. With this fundamental goal in mind, we have continued to push the boundaries of technological development to release a series of innovative products in the second quarter of 2018. To mark the 8^{th} anniversary of Xiaomi, we released our flagship smartphone *Mi 8* which is equipped with cutting-edge technologies. *Mi 8* is the world's first smartphone to use pressure sensitive in-display fingerprint technology and dual frequency GPS. It is also the first Android smartphone to have 3D face unlock. *Mi 8*'s camera also features outstanding performance, receiving a score of 105 in DxOMark's review which is a leading position in the industry. *Mi 8*'s camera continues to improve user experience and is well-received among both professional users and mass consumers.

In China, our strategic focus for 2018 is to expand into the high-end smartphone market and we have seen good progress. Our smartphone ASP in mainland China increased over 25% year-on-year in the second quarter of 2018. Our flagship phone series, *Mi 8*, which has an average ASP above RMB2,000, sold over 1.1 million units in the first month of sales.

The smartphone market in mainland China is in a period of recalibration. We believe our strategic focus to further penetrate the high-end smartphone market by optimizing our product portfolio in 2018 will lay the groundwork for further shipment unit growth in China in 2019.

CHAIRMAN'S STATEMENT

3. IoT and lifestyle products

The IoT and lifestyle products segment grew 104.3% year-on-year in revenue to RMB10.4 billion for the second quarter of 2018.

Global sales volume of our smart TVs grew over 350% year-on-year for the second quarter of 2018. We became the number one TV brand in mainland China in the second quarter of 2018. We also launched our smart TV in the India market in February 2018 and built significant market share by the end of the second quarter of 2018.

We continued to broaden our IoT product portfolio globally. As we bring more IoT products to international markets, such products direct additional traffic to our overseas sales channels, improving the efficiency of our overseas operations.

We also continued to launch innovative IoT products, such as the *Mi VR Standalone* headset that we co-developed with Oculus, and *Mi Band 3*, which features a large touchscreen, 50 meter water resistance and battery life of up to 20 days. *Mi VR Standalone* headset was named one of the best inventions of 2017 by *Time Magazine*.

As of the end of the second quarter of 2018, we had about 115 million connected Xiaomi IoT devices, excluding smartphones and laptops, representing 15% quarter-on-quarter growth. There are close to 1.7 million users who own more than five Xiaomi IoT devices, excluding smartphones and laptops, representing 19% quarter-on-quarter growth.

4. Internet services

Revenue from our internet services segment grew 63.6% year-on-year to RMB4.0 billion in the second quarter of 2018, driven primarily by increasing monetization in mainland China. Advertising revenue grew 69.6% year-on-year to RMB2.5 billion driven by continued optimization of our recommendation algorithm and increased advertising spending from our customers. Revenue from internet value-added services also grew 54.1% year-on-year to RMB1.5 billion.

Within internet value-added services, revenue from gaming accounted for RMB703.9 million, growing 25.5% year-on-year.

Monthly active users ("MAU") of MIUI increased 41.7% from 146.0 million in June 2017 to 206.9 million in June 2018, driven by increasing smartphone sales volume and user adoption. Average revenue per user ("ARPU") this quarter increased 15.4% year-on-year to RMB19.1. Up until the end of the second quarter of 2018, our internet services revenue was primarily generated in mainland China. We are of the view that there are a wide range of opportunities for internet services in the global market and continue to improve user experience of our international users of internet services to lay the foundation for future revenue growth.

Artificial intelligence ("AI") technology is a core part of our strategy. Our AI assistant ("小愛同學") won the "2018 Leading Scientific and Technological Achievement Award — Cool Technologies" and "2018 Leading Scientific and Technological Achievement Award — New Product" awards at the China International Big Data Industry Expo held in May 2018. As of July 2018, our AI assistant ("小愛同學") MAU exceeded 30 million. Our AI speaker has accumulated over 2 billion activations within the first year of its launch.

To promote the development of the AI industry, in June 2018 we announced that our *Mobile AI Compute Engine* ("MACE"), a prediction framework for a deep learning model optimized for mobile devices, would become a fully open source platform. Using MACE, developers can more quickly and efficiently develop AI applications on mobile devices and significantly enhance the user experience of these applications. At present, application scenarios covered by MACE include scene recognition, image super-resolution, image stylization processing, intelligent speech, intelligent translation, etc. Embracing open source and encouraging public participation in technological advancement is an important part of our culture.

5. International markets

Our international revenue grew 151.7% year-on-year to RMB16.4 billion, which accounted for 36.3% of our total revenue.

According to Canalys, our smartphones continued to experience rapid growth in the Indian market and ranked first in terms of market share by shipment in the second quarter of 2018. In Indonesia, we also recorded impressive growth and ranked number two in terms of smartphone shipments in the second quarter of 2018. In the Western Europe market, we expanded into France and Italy in May 2018. In the second quarter of 2018, smartphone shipments in Western Europe grew over 2700% year-on-year.

As of the second quarter of 2018, we were ranked top five in the smartphone markets in 25 countries and regions, according to Canalys.

6. Others

Quality

Maintaining high quality across our products is our priority. We continued to see improvement in our product quality in the second quarter of 2018.

We recently appointed Mr. Yan Kesheng as the Group's Vice President and chairman of the quality committee. Mr. Yan will be responsible for the quality management of all of our products and services and will oversee the continued improvement of user experience for our products. This is the first senior management appointment after the listing of the Group, and reflects our commitment to quality. Mr. Yan Kesheng has more than 20 years of experience in mobile phone research and development. He previously led the research and development of a series of important innovative smartphones and led the quality management committee of our smartphone department.

Efficiency

Xiaomi is an innovation-driven company that also focuses on efficiency. We continued to expand our efficient offline channels while maintaining our online channels in the second quarter of 2018. As of June 30, 2018, we had more than 400 *Mi Homes* in mainland China, mainly in first and second tier cities. To penetrate more rural parts of China, by the end of the second quarter of 2018, we had over 360 authorized stores and also had built a direct supply network covering more than 37,000 locations, spread across over 30 provinces, over 300 cities and over 2,500 towns. In India, our offline smartphone sales achieved a market share of over 20% and ranked number one in 8 cities, according to GFK, in the second quarter of 2018. Even with the rapid expansion of offline channels, our overall operation remained highly efficient with an operating expense ratio at 8.8% for the second quarter of 2018.

Strategic partnerships

We have recently established strategic partnerships with several leading companies to further strengthen our business, including:

— a global strategic alliance with CK Hutchison Holdings Limited to explore global markets;

— a strategic partnership agreement with China Merchants Group to deepen cooperation in various areas, including finance and investment; and

— a strategic partnership agreement with China Mobile Communications Corporation to cooperate and explore opportunities in nine major areas including 4G+ terminal, new retail, smart hardware and IoT, joint marketing, government enterprise services and cloud services, 5G, cross-border businesses and investment.

Lei Jun
Chairman

Hong Kong
August 22, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Second Quarter of 2018 Compared to Second Quarter of 2017

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

	Three months ended	
	June 30, 2018	June 30, 2017
	(RMB in millions)	
	(Unaudited)	(Unaudited)
Revenue	45,235.5	26,879.0
Cost of sales	(39,583.7)	(23,031.4)
Gross profit	5,651.8	3,847.6
Selling and marketing expenses	(2,075.7)	(1,143.5)
Administrative expenses	(10,456.9)	(228.8)
Research and development expenses	(1,363.6)	(707.3)
Fair value changes on investments measured at fair value through profit or loss	526.9	1,738.3
Share of losses of investments accounted for using the equity method	(128.5)	(84.6)
Other income	207.3	172.9
Other gains, net	46.7	64.7
Operating (loss)/profit	(7,592.0)	3,659.3
Finance (expense)/income, net	(32.3)	4.5
Fair value changes of convertible redeemable preferred shares	22,532.7	(15,004.2)
Profit/(loss) before income tax	14,908.4	(11,340.4)
Income tax expenses	(275.8)	(626.2)
Profit/(loss) for the period	14,632.6	(11,966.6)
Non-IFRS Measure: Adjusted profit	2,116.8	1,691.5

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 68.3% to RMB45,235.5 million for the second quarter of 2018 on a year-on-year basis. The following table sets forth our revenue by line of business for the second quarter of 2018 and the second quarter of 2017:

	Three months ended			
	June 30, 2018		June 30, 2017	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
	(Unaudited)		(Unaudited)	
Smartphones	**30,501.1**	**67.4%**	19,218.7	71.5%
IoT and lifestyle products	**10,378.8**	**22.9%**	5,080.9	18.9%
Internet services	**3,958.2**	**8.8%**	2,419.6	9.0%
Others	**397.4**	**0.9%**	159.8	0.6%
Total revenue	**45,235.5**	**100.0%**	26,879.0	100.0%

Smartphones

Revenue from our smartphones segment increased by 58.7% from RMB19.2 billion in the second quarter of 2017 to RMB30.5 billion in the second quarter of 2018, driven by strong growth in both sales volume and ASP. We sold approximately 32.0 million smartphone units in the second quarter of 2018, compared to approximately 22.2 million units in the second quarter of 2017. The ASP of our smartphones was RMB952.3 per unit in the second quarter of 2018, compared with RMB863.8 per unit in the second quarter of 2017. The increase in ASP was primarily due to strong sales of our mid to high end models such as MIX 2S and *Mi 8* in the China market, consistent with the shifts in consumer taste in China's smartphone market. Enhanced marketing efforts in the second quarter, as well as major promotional events including the Mi Fans Festival in April and mid-year 6.18 sales in June further boosted our brand awareness and sales performance.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 104.3% from RMB5.1 billion in the second quarter of 2017 to RMB10.4 billion in the second quarter of 2018, primarily due to strong sales growth in existing products, particularly smart TVs and laptops. Revenue from the sales of our key IoT products, including smart TVs and laptops, increased by 147.2% from RMB1,689.8 million in the second quarter of 2017 to RMB4,178.0 million in the second quarter of 2018.

Internet services

Revenue from our internet services segment increased by 63.6% from RMB2.4 billion in the second quarter of 2017 to RMB4.0 billion in the second quarter of 2018, primarily due to growth in advertising revenue. MIUI MAU increased by 41.7% from 146.0 million in June 2017 to 206.9 million in June 2018. Average internet services revenue per user, calculated as internet services revenue for the three months ended June 30 divided by the MAU in June for such year, increased from RMB16.6 in the second quarter of 2017 to RMB19.1 in the second quarter of 2018.

Others

Other revenue increased by 148.6% from RMB159.8 million in the second quarter of 2017 to RMB397.4 million in the second quarter of 2018, primarily due to an increase in hardware repair revenue, in-line with our increase in hardware sales.

Cost of Sales

Our cost of sales increased by 71.9% from RMB23.0 billion in the second quarter of 2017 to RMB39.6 billion in the second quarter of 2018.

	Three months ended			
	June 30, 2018		June 30, 2017	
	Amount	% of segment revenue	Amount	% of segment revenue
	(RMB in millions, unless specified)			
	(Unaudited)		(Unaudited)	
Smartphones	28,458.9	62.9%	17,541.3	65.3%
IoT and lifestyle products	9,399.5	20.8%	4,485.3	16.7%
Internet services	1,473.0	3.3%	909.0	3.4%
Others	252.3	0.5%	95.8	0.3%
Total cost of sales	39,583.7	87.5%	23,031.4	85.7%

Smartphones

Cost of sales related to our smartphones segment increased by 62.2% from RMB17.5 billion in the second quarter of 2017 to RMB28.5 billion in the second quarter of 2018, primarily due to increased sales of our smartphones and the appreciation of the United States dollar against the RMB and Indian Rupee in the second quarter of 2018. For a detailed break-down of the costs of our smartphones segment, please refer to the section headed "Financial Information" in the Prospectus.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 109.6% from RMB4.5 billion in the second quarter of 2017 to RMB9.4 billion in the second quarter of 2018, primarily due to increased sales of smart TVs and laptops and other IoT products and the appreciation of the United States dollar against the RMB.

Internet services

Cost of sales related to our internet services segment increased by 62.0% from RMB909.0 million in the second quarter of 2017 to RMB1,473.0 million in the second quarter of 2018, primarily due to increased infrastructure service spending resulting from higher user traffic and engagement.

Others

Cost of sales in our others segment increased by 163.4% from RMB95.8 million in the second quarter of 2017 to RMB252.3 million in the second quarter of 2018, primarily due to increased hardware repair costs.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 46.9% from RMB3.8 billion in the second quarter of 2017 to RMB5.7 billion in the second quarter of 2018. The gross profit margin from our smartphones segment decreased from 8.7% in the second quarter of 2017 to 6.7% in the second quarter of 2018. The gross profit margin from our IoT and lifestyle products segment decreased from 11.7% in the second quarter of 2017 to 9.4% in the second quarter of 2018. In order to lay the groundwork to capture long term value, we will selectively prioritize higher growth to capture market share in key products over higher gross margins. We are also closely monitoring changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact. The gross profit margin from our internet services segment increased from 62.4% in the second quarter of 2017 to 62.8% in the second quarter of 2018. As a result of the foregoing, our gross margin decreased from 14.3% in the second quarter of 2017 to 12.5% in the second quarter of 2018.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 81.5% from RMB1,143.5 million in the second quarter of 2017 to RMB2,075.7 million in the second quarter of 2018, primarily due to our enhanced marketing efforts, such as advertising during the World Cup and offline advertising campaigns for newly launched products including the *Mi 8*, MIX 2S and Mi 6X. Salaries and benefits relating to selling and marketing personnel increased from RMB285.5 million in the second quarter of 2017 to RMB459.3 million in the second quarter of 2018 primarily due to increased headcount to accommodate the rapid growth of our business.

Administrative Expenses

Our administrative expenses increased by 4,469.6% from RMB228.8 million in the second quarter of 2017 to RMB10,456.9 million in the second quarter of 2018, primarily due to one-off share-based compensation of RMB9.9 billion in the second quarter of 2018, as well as the expansion of our administration departments, including the management, human resources and accounting teams. Salaries and benefits (excluding the one-off share-based compensation) relating to administrative personnel increased from RMB116.7 million in the second quarter of 2017 to RMB302.7 million in the second quarter of 2018, primarily due to the related headcount increase to accommodate the rapid growth of our business. Our administrative expenses, excluding the one-off share-based compensation, increased from RMB228.8 million in the second quarter of 2017 to RMB527.1 million in the second quarter of 2018.

Research and Development Expenses

Our research and development expenses increased by 92.8% from RMB707.3 million in the second quarter of 2017 to RMB1,363.6 million in the second quarter of 2018, primarily due to the expansion of our research and development efforts for our internet services and several new research projects. Salaries and benefits relating to research and development personnel increased primarily due to increased headcount to accommodate the rapid growth of our business.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 69.7% from RMB1,738.3 million in the second quarter of 2017 to RMB526.9 million in the second quarter of 2018, primarily due to the smaller changes in fair value gains of our equity and preferred share investments in the second quarter of 2018.

Share of Losses of Investments Accounted for Using the Equity Method

Our share of losses of investments accounted for using the equity method changed from a loss of RMB84.6 million in the second quarter of 2017 to a loss of RMB128.5 million in the second quarter of 2018, primarily due to share of loss of IQIYI in the second quarter of 2018.

Other Income

Our other income increased by 19.9% from RMB172.9 million in the second quarter of 2017 to RMB207.3 million in the second quarter of 2018, primarily due to the increase in dividend income following the declaration of dividends by Midea Group (Shenzhen Stock Exchange Stock Code: 000333) in the second quarter of 2018 and the increase in returns from our wealth management products.

Finance (Expense)/Income, Net

We had net finance income of RMB4.5 million in the second quarter of 2017 and a net finance expense of RMB32.3 million in the second quarter of 2018, primarily due to greater interest expenses as a result of higher indebtedness.

Fair Value Changes of Convertible Redeemable Preferred Shares

Changes in the fair value of our convertible redeemable preferred shares were recorded as "fair value changes of convertible redeemable preferred shares". Fair value changes of convertible redeemable preferred shares changed from a loss of RMB15.0 billion in the second quarter of 2017 to a gain of RMB22.5 billion in the second quarter of 2018, primarily due to revaluation of equity value of the Company based on the Offer Price in the Global Offering. After the completion of the Global Offering, all of our convertible redeemable preferred shares were converted to our Class B Shares. The fair value of each of convertible redeemable preferred shares is equivalent to the fair value of each of our ordinary shares on the conversion date, which is the Offer Price in the Global Offering.

Income Tax Expenses

Our income tax expenses decreased from RMB626.2 million in the second quarter of 2017 to RMB275.8 million in the second quarter of 2018.

Profit/(Loss) for the Period

As a result of the foregoing, we had a loss of RMB12.0 billion and profit of RMB14.6 billion in the second quarter of 2017 and the second quarter of 2018, respectively.

Second Quarter of 2018 Compared to First Quarter of 2018

The following table sets forth the comparative figures for the second quarter of 2018 and the first quarter of 2018:

	Three months ended	
	June 30, 2018	March 31, 2018
	(RMB in millions)	
	(Unaudited)	(Audited)
Revenue	45,235.5	34,412.3
Cost of sales	(39,583.7)	(30,110.9)
Gross profit	5,651.8	4,301.4
Selling and marketing expenses	(2,075.7)	(1,402.8)
Administrative expenses	(10,456.9)	(465.3)
Research and development expenses	(1,363.6)	(1,103.8)
Fair value changes on investments measured at fair value through profit or loss	526.9	1,762.9
Share of (losses)/gains of investments accounted for using the equity method	(128.5)	16.3
Other income	207.3	158.2
Other gains, net	46.7	97.6
Operating (loss)/profit	(7,592.0)	3,364.5
Finance (expense)/income, net	(32.3)	17.8
Fair value changes of convertible redeemable preferred shares	22,532.7	(10,071.4)
Profit/(loss) before income tax	14,908.4	(6,689.1)
Income tax expenses	(275.8)	(338.3)
Profit/(loss) for the period	14,632.6	(7,027.4)
Non-IFRS Measure: Adjusted profit	2,116.8	1,699.3

Revenue

Revenue increased by 31.5% to RMB45,235.5 million for the second quarter of 2018 on a quarter-on-quarter basis. The following table sets forth our revenue by line of business for the second quarter of 2018 and the first quarter of 2018:

	Three months ended			
	June 30, 2018		March 31, 2018	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
	(Unaudited)		(Audited)	
Smartphones	30,501.1	67.4%	23,239.5	67.5%
IoT and lifestyle products	10,378.8	22.9%	7,696.6	22.4%
Internet services	3,958.2	8.8%	3,231.3	9.4%
Others	397.4	0.9%	244.9	0.7%
Total revenue	45,235.5	100.0%	34,412.3	100.0%

Smartphones

Revenue from our smartphones segment increased by 31.2% from RMB23.2 billion in the three months ended March 31, 2018 to RMB30.5 billion in the three months ended June 30, 2018, driven by growth in both sales volume and ASP of our smartphones. We sold approximately 32.0 million units of smartphones in the three months ended June 30, 2018, compared to approximately 28.4 million units in the three months ended March 31, 2018. The ASP of our smartphones was RMB952.3 per unit in the three months ended June 30, 2018, compared with RMB817.9 per unit in the three months ended March 31, 2018. The increase in ASP was primarily due to strong sales of our mid to high end models such as MIX 2S and *Mi 8* in the China market. Enhanced marketing efforts in the second quarter, as well as major promotional events including the Mi Fans Festival in April and mid-year 6.18 sales in June, further boosted our brand awareness and sales performance.

IoT and lifestyle products

Our revenue from our IoT and lifestyle products segment increased by 34.8% from RMB7.7 billion in the three months ended March 31, 2018 to RMB10.4 billion in the three months ended June 30, 2018, primarily due to strong growth in existing products, particularly smart TVs and laptops. Revenue from sales of our key IoT products, including smart TVs and laptops, increased by 30.7% from RMB3,195.9 million in the three months ended March 31, 2018 to RMB4,178.0 million in the three months ended June 30, 2018.

Internet services

Revenue from our internet services segment increased by 22.5% from RMB3.2 billion in the three months ended March 31, 2018 to RMB4.0 billion in the three months ended June 30, 2018, primarily due to growth in advertising revenue. MIUI MAU increased by 8.9% from 190.0 million in March 2018 to 206.9 million in June 2018. Average internet services revenue per user, calculated as the ratio of internet services revenue for the three months ended March 31 and June 30 divided by the MAU in March and June for such quarter, increased from RMB17.0 in the three months ended March 31, 2018 to RMB19.1 in the three months ended June 30, 2018.

Others

Our other revenue increased by 62.2% from RMB244.9 million in the three months ended March 31, 2018 to RMB397.4 million in the three months ended June 30, 2018, primarily due to the increased hardware repair revenue.

Cost of Sales

Our cost of sales increased by 31.5% from RMB30.1 billion for the three months ended March 31, 2018 to RMB39.6 billion for the three months ended June 30, 2018.

	Three months ended			
	June 30, 2018		March 31, 2018	
	Amount	% of segment revenue	Amount	% of segment revenue
	(RMB in millions, unless specified)			
	(Unaudited)		(Audited)	
Smartphones	28,458.9	62.9%	21,893.4[1]	63.6%
IoT and lifestyle products	9,399.5	20.8%	6,875.0[1]	20.0%
Internet services	1,473.0	3.3%	1,219.4	3.5%
Others	252.3	0.5%	123.1	0.4%
Total cost of sales	39,583.7	87.5%	30,110.9	87.5%

Note:

(1) There was a RMB156 million reclassification of costs from smartphones segment to IoT and lifestyle products segment to better reflect the segment information of the first quarter of 2018. The reclassification was related to the allocation of costs for the amortization of certain intangible assets including brand and software. The total gross profit of first quarter of 2018 was not affected by this reclassification. The reclassification also did not have any impact for the segment information for the years ended December 31, 2015, 2016 and 2017.

Smartphones

Cost of sales related to our smartphones segment increased by 30.0% from RMB21.9 billion in the three months ended March 31, 2018 to RMB28.5 billion in the three months ended June 30, 2018, primarily due to increased sales of our smartphones and the appreciation of the United States dollar against the RMB and Indian Rupee in the second quarter of 2018. For a detailed break-down of the costs of our smartphones segment, please refer to the section headed "Financial Information" in the Prospectus.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 36.7% from RMB6.9 billion in the three months ended March 31, 2018 to RMB9.4 billion in the three months ended June 30, 2018, primarily due to increased sales of smart TVs and laptops and other IoT products and the appreciation of the United States dollar against the RMB.

Internet services

Cost of sales related to our internet services segment increased by 20.8% from RMB1,219.4 million in the three months ended March 31, 2018 to RMB1,473.0 million in the three months ended June 30, 2018, primarily due to growth in advertising costs.

Others

Cost of sales in our others segment increased by 104.9% from RMB123.1 million in the three months ended March 31, 2018 to RMB252.3 million in the three months ended June 30, 2018, primarily due to the increased hardware repair costs.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 31.4% from RMB4.3 billion in the three months ended March 31, 2018 to RMB5.7 billion in the three months ended June 30, 2018. The gross profit margin from our smartphones segment increased from 5.8% in the three months ended March 31, 2018 to 6.7% in the three months ended June 30, 2018. The gross profit margin from our IoT and lifestyle products segment decreased from 10.7% in the three months ended March 31, 2018 to 9.4% in the three months ended June 30, 2018. In order to lay the groundwork to capture long term value, we will selectively prioritize higher growth to capture market share in key products over higher gross margins. We are also closely monitoring changes in currency exchange rates and will take necessary measures to mitigate exchange rate impact. The gross profit margin from our internet services segment increased from 62.3% in the three months ended March 31, 2018 to 62.8% in the three months ended June 30, 2018. As a result of the foregoing, our gross margin remained stable.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 48.0% from RMB1,402.8 million in the three months ended March 31, 2018 to RMB2,075.7 million in the three months ended June 30, 2018, primarily due to increases in promotional and advertising expenses. Promotional and advertising expenses increased by 133.0% from RMB337.6 million in the three months ended March 31, 2018 to RMB786.5 million in the three months ended June 30, 2018, primarily due to series of online advertisements (e.g. World Cup advertisements) and offline advertisements for newly launched products including *Mi 8*, MIX 2S and Mi 6X.

Administrative Expenses

Our administrative expenses increased by 2,147.2% from RMB465.3 million in the three months ended March 31, 2018 to RMB10,456.9 million in the three months ended June 30, 2018, primarily due to one-off share-based compensation of RMB9.9 billion in the second quarter of 2018. Our administrative expenses, excluding the one-off share-based compensation, increased from RMB465.3 million in the first quarter of 2018 to RMB527.1 million in the second quarter of 2018.

Research and Development Expenses

Our research and development expenses increased by 23.5% from RMB1,103.8 million in the three months ended March 31, 2018 to RMB1,363.6 million in the three months ended June 30, 2018, primarily due to the increase in total compensation relating to research and development personnel and the expansion of our research projects. Salaries and benefits relating to research and development personnel increased primarily due to increased headcount to accommodate the rapid growth of our business.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 70.1% from RMB1.8 billion in the three months ended March 31, 2018 to RMB0.5 billion in the three months ended June 30, 2018, primarily due to the lesser changes in fair value gains of our equity and preferred share investments.

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

Our share of (losses)/gains of investments accounted for using the equity method changed from a gain of RMB16.3 million in the three months March 31, 2018 to a loss of RMB128.5 million in the three months ended June 30, 2018, primarily due to share of loss of IQIYI in the second quarter of 2018.

Other Income

Our other income increased by 31.0% from RMB158.2 million in the three months ended March 31, 2018 to RMB207.3 million in the three months ended June 30, 2018, primarily due to the increase in dividend income following the declaration of dividends by Midea Group (Shenzhen Stock Exchange Stock Code: 000333) in the second quarter of 2018.

Finance (Expense)/Income, Net

We had net finance income of RMB17.8 million in the three months ended March 31, 2018 and a net finance expense of RMB32.3 million in the three months ended June 30, 2018, primarily due to an increase in interest expenses. Our interest expenses increased primarily due to increased interest expenses on bank borrowing.

Fair Value Changes of Convertible Redeemable Preferred Shares

Changes in the fair value of convertible redeemable preferred shares were recorded as "fair value changes of convertible redeemable preferred shares". Fair value changes of convertible redeemable preferred shares increased from a loss of RMB10.1 billion in the three months ended March 31, 2018 to a gain of RMB22.5 billion in the three months ended June 30, 2018, primarily due to the revaluation of equity value of the Company based on the Offer Price in the Global Offering. After the completion of the Global Offering, all of our convertible redeemable preferred shares were converted to our Class B Shares. The fair value of each of convertible redeemable preferred shares is equivalent to the fair value of each of our ordinary shares on the conversion date, which is the Offer Price in the Global Offering.

Income Tax Expenses

Our income tax expenses remained relatively stable, at RMB338.3 million in the three months ended March 31, 2018 and RMB275.8 million in the three months ended June 30, 2018.

Profit/(Loss) for the Period

As a result of the foregoing, we had loss of RMB7.0 billion and profit of RMB14.6 billion in the three months ended March 31, 2018 and June 30, 2018, respectively.

Non-IFRS Measure: Adjusted Profit

To supplement our consolidated results which are prepared and presented in accordance with International Financial Reporting Standards (the "IFRS"), we also use adjusted profit as an additional financial measure, which is not required by, or presented in accordance with, IFRS. We believe that the presentation of non-IFRS measures when shown in conjunction with the corresponding IFRS measures provides useful information to investors and management regarding financial and business trends in relation to our financial condition and results of operations, by eliminating any potential impact of items that our management does not consider to be indicative of our operating performance such as certain non-cash items and the impact of certain investment transactions. We also believe that the non-IFRS measures are appropriate for evaluating the Group's operating performance. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial conditions as reported under IFRS. In addition, this non-IFRS financial measure may be defined differently from similar terms used by other companies.

The following tables set forth reconciliations of the Group's non-IFRS measures for the second quarter of 2018 and 2017, the first quarter of 2018, and the first half of 2018 and 2017 to the nearest measures prepared in accordance with IFRS:

	Three Months Ended June 30, 2018					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
Profit for the period	14,632,647	(22,532,721)	10,527,322	(510,945)	521	2,116,824
Net margin	32.3%					4.7%

	Three Months Ended March 31, 2018					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the period	(7,027,411)	10,071,376	488,237	(1,833,421)	520	1,699,301
Net margin	(20.5)%					4.9%

	Three Months Ended June 30, 2017					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the period	(11,966,571)	15,004,165	182,209	(1,528,921)	611	1,691,493
Net margin	(44.5)%					6.3%

	Six Months Ended June 30, 2018					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
Profit for the period	7,605,236	(12,461,345)	11,015,559	(2,344,366)	1,041	3,816,125
Net margin	9.5%					4.8%

	Six Months Ended June 30, 2017					
		Adjustments				
	As reported	Fair value changes of convertible redeemable preferred shares	Share-based compensation	Net fair value gains on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Non-IFRS
	(RMB in thousand, unless specified)					
(Loss)/profit for the period	(19,833,590)	24,468,644	318,385	(2,602,638)	1,223	2,352,024
Net margin	(43.7)%					5.2%

Notes:

(1) Includes fair value gains on equity investments and preferred shares investments deducting the cumulative fair value changes for investments disposed in the current period, the impairment provision for investments, remeasurement of loss of significant influence in an associate and re-measurement of investments transferring from financial asset measured at fair value through profit or loss to investments using the equity method, net of tax.

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

Liquidity and Financial Resources

We have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB14.0 billion and RMB14.9 billion as of March 31, 2018 and June 30, 2018, respectively.

Consolidated Statement of Cash Flow

	Three months ended June 30, 2018	Three months ended March 31, 2018
	(in thousands of RMB)	
	(Unaudited)	(Audited)
Net cash generated from/(used in) operating activities[1]	7,399,225	(1,277,682)
Net cash (used in)/generated from investing activities	(4,286,376)	460,647
Net cash (used in)/generated from financing activities[1]	(2,144,294)	3,337,476
Net increase in cash and cash equivalents	968,555	2,520,441
Cash and cash equivalents at beginning of period	14,027,013	11,563,282
Effects of exchange rate changes on cash and cash equivalents	(101,418)	(56,710)
Cash and cash equivalents at end of period	14,894,150	14,027,013

Note:

(1) Excluding the increase in loan and interest receivables mainly resulting from internet finance business, the net cash generated from operating activities was RMB8.2 billion for the three months ended June 30, 2018 and the net cash used in operating activities was RMB1.2 billion for three months ended March 31, 2018; excluding the change of borrowings for internet finance business, the net cash used in financing activities was RMB0.7 billion for the three months ended June 30, 2018 and the net cash generated from financing activities was RMB2.5 billion for the three months ended March 31, 2018. The information in this footnote is based on the management accounts of the Group which has 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/(Used In) Operating Activities

Net cash generated from/(used in) operating activities represents cash generated from/(used in) operations minus income tax paid. Cash generated from/(used in) operations primarily comprise our loss or profit for the period adjusted by non-cash items and changes in working capital.

For the three months ended June 30, 2018, net cash generated from operating activities amounted to RMB7.4 billion, representing cash generated from operations of RMB8.0 billion minus income tax paid of RMB0.6 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB14.9 billion, as adjusted by (i) the add-back of non-cash items, primarily comprising share-based compensation of RMB10.5 billion, offset by fair value changes of convertible redeemable preferred shares of RMB22.5 billion, and (ii) changes in working capital, which primarily comprised an increase in trade payables of RMB15.5 billion, an increase in prepayments and other receivables of RMB3.3 billion and an increase in inventories of RMB6.8 billion.

Net Cash (Used In)/Generated From Investing Activities

For the three months ended June 30, 2018, our net cash used in investing activities was RMB4.3 billion, which was primarily attributable to the net cash used in purchase of short-term investments measured at fair value through profit or loss of RMB35.5 billion, and the net cash generated from proceeds from maturity of short-term investments measured at fair value through profit or loss of RMB30.4 billion.

Net Cash (Used In)/Generated From Financing Activities

For the three months ended June 30, 2018, our net cash used in financing activities was RMB2.1 billion, which was primarily attributable to repayments of borrowings of RMB2.5 billion and placement of restricted cash of RMB3.3 billion, partially offset by proceeds from limited partners of RMB2.6 billion.

Borrowings

As of March 31, 2018 and June 30, 2018, we had total borrowings of RMB14.1 billion and RMB12.6 billion, respectively. Accordingly, our gearing ratio was 1.44% and 5.91% as of March 31, 2018 and June 30, 2018, respectively. 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 term deposits. Total capital is calculated as total equity plus net debt.

Convertible Redeemable Preferred Shares

As of March 31, 2018 and June 30, 2018, our convertible redeemable preferred shares had fair values of RMB165.3 billion and RMB150.6 billion, respectively.

Capital Expenditure

	Three months ended	
	June 30, 2018	March 31, 2018
	(in thousands of RMB)	
Capital expenditures	**308,642**	706,042
Placement of long-term investments[1]	**310,400**	600,242
Total	**619,042**	1,306,284

Note:

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

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

Off-Balance Sheet Commitments and Arrangements

As of June 30, 2018, except for financial guarantee contracts, we had not entered into any off-balance sheet arrangements.

Future Plans for Material Investments and Capital Assets

As of June 30, 2018, we did not have other plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended June 30, 2018, we did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Employee and Remuneration Policy

As of June 30, 2018, we had 15,222 full-time employees, 14,495 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India, Taiwan, Hong Kong and Indonesia. We expect to continue to increase our headcount in mainland China and our key target markets in the rest of the world. As of June 30, 2018, our research and development personnel, totaling 6,537 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of June 30, 2018, over 6,415 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the three months ended June 30, 2018 were RMB11,642.9 million, representing an increase of 666.3% as compared to the previous quarter ended March 31, 2018, primarily due to one-off share-based compensation of RMB9.9 billion in the second quarter of 2018.

Foreign Exchange Risk

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

We did not hedge against any fluctuation in foreign currency in the three months ended June 30, 2018, nor did we do so in the three months ended March 31, 2018.

Pledge of Assets

As of June 30, 2018, we pledged a restricted deposit of RMB4,587.1 million (as of March 31, 2018: RMB1,678.2 million).

Contingent Liabilities

As of June 30, 2018, we did not have any material contingent liabilities (as of March 31, 2018: nil).

OTHER INFORMATION

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

The Shares were listed on the Stock Exchange on July 9, 2018 (the Listing Date), which is after June 30, 2018 (end of the Reporting Period). Accordingly, Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO were not applicable to the Company/the Directors or chief executives of the Company as at June 30, 2018.

As at the date of this interim report, 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:

(i) Interest in Shares

Name of Director or chief executive	Nature of interest[6]	Relevant company	Number and class of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
Lei Jun[2]	Beneficiary, founder and settlor of a Trust (L)	Trust	4,295,187,720 Class A Shares	64.15%
			2,283,106,380 Class B Shares	14.38%
	Interest in controlled corporations (L)	Parkway Global Holdings Limited	4,295,187,720 Class A Shares	64.15%
			2,283,106,380 Class B Shares	14.38%
	Interest in controlled corporations (L)	Sunrise Vision Holdings Limited	4,295,187,720 Class A Shares	64.15%
			2,283,106,380 Class B Shares	14.38%
	Interest in controlled corporations (L)	Smart Mobile Holdings Limited	4,295,187,720 Class A Shares	64.15%
			2,223,884,750 Class B Shares	14.01%

Name of Director or chief executive	Nature of interest[6]	Relevant company	Number and class of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
	Interest in controlled corporations (L)	Smart Player Limited	59,221,630 Class B Shares	0.37%
	Interest of a party to an agreement regarding interest in the Company (L)	N/A	378,410,630 Class B Shares	2.38%
Lin Bin[3]	Beneficial owner (L)	Company	91,233,610 Class B Shares	0.57%
	Trustee, beneficiary and settlor of a trust (L)	Bin Lin Trust	2,400,000,000 Class A Shares	35.85%
			300,000,000 Class B Shares	1.89%
Koh Tuck Lye[4]	Interest in controlled corporations (L)	Shunwei Ventures Limited	610,471,890 Class B Shares	3.84%
	Interest in controlled corporations (L)	Bright Inspiration Holdings Limited	5,000,000 Class B Shares	0.03%
	Interest in controlled corporation (L)	Gifted Jade Limited	3,377,000 Class B Shares	0.02%
Liu Qin[5]	Interest in controlled corporations (L)	Morningside China TMT Fund I, L.P.	2,438,349,780 Class B Shares	15.35%
	Interest in controlled corporations (L)	Morningside China TMT Fund II, L.P.	409,475,770 Class B Shares	2.58%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as at the date of this interim report.

(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. The entire interest in Parkway Global Holdings Limited is held by ARK Trust (Hong Kong) Limited as trustee for a trust established by Lei Jun (as the settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 4,295,187,720 Class A Shares and 2,223,884,750 Class B Shares held by Smart Mobile Holdings Limited, and 59,221,630 Class B Shares held by Smart Player Limited under the SFO. On June 18, 2018, Lei Jun was granted by certain Shareholders a voting proxy over a total of 378,410,630 Class B Shares.

OTHER INFORMATION

(3) Lin Bin holds 2,400,000,000 Class A Shares and 300,000,000 Class B Shares as trustee of Bin Lin Trust, which was established by Lin Bin (as the settlor) for the benefit of Lin Bin and his family.

(4) Shunwei Ventures Limited is a wholly-owned subsidiary of Shunwei China Internet Fund, L.P. Shunwei Capital Partners GP, L.P. is the general partner of Shunwei China Internet Fund, L.P. Shunwei Capital Partners GP Limited is the general partner of Shunwei Capital Partners GP, L.P., which is in turn owned by Gifted Ventures Limited as to 75%. Bright Inspiration Holdings Limited is a wholly-owned subsidiary of Shunwei China Internet Fund III L.P. Shunwei Capital Partners III GP, L.P. is the general partner of Shunwei China Internet Fund III L.P. Shunwei Capital Partners III GP Limited is the general partner of Shunwei Capital Partners III GP, L.P., which is owned by Gifted Ventures Limited as to 75%. Gifted Ventures Limited is wholly-owned by Koh Tuck Lye. Gifted Jade Limited is also wholly-owned by Koh Tuck Lye. Koh Tuck Lye is therefore deemed to be interested in the total of 618,848,890 Class B Shares held by Shunwei Ventures Limited, Bright Inspiration Holdings Limited and Gifted Jade Limited 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) The letter "L" denotes the person's long position in the shares.

(ii) Interest in associated corporations

Name of Director or chief executive	Nature of interest	Associated corporations	Approximate percentage of shareholding[1]
Lei Jun	Beneficial owner	Xiaomi Finance[2]	42.07%
	Interest in controlled corporations (L)	Parkway Global Holdings Limited[3]	100%
	Interest in controlled corporations (L)	Sunrise Vision Holdings Limited[3]	100%
	Interest in controlled corporations (L)	Smart Mobile Holdings Limited[3]	100%
	Interest in controlled corporation (L)	Shenzhen Pineapple Games Co., Ltd. (深圳市菠蘿遊戲有限公司)	0%
	Interest in controlled corporation (L)	Zimi International Incorporation[4]	9.43%
Koh Tuck Lye	Interest in controlled corporation (L)	Zimi International Incorporation[4]	21.25%
	Interest in controlled corporation (L)	SMARTMI International Ltd[5]	33.99%

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as at the date of this interim report.

(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, is wholly-owned by Sunrise Vision Holdings Limited (which holding 100 shares of Smart Mobile Holdings Limited) which is in turn wholly-owned by Parkway Global Holdings Limited (which holding 1 share of Sunrise Vision Holdings Limited). Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited through the said companies and ARK Trust (Hong Kong) Limited (which wholly-own the entire 1 issued share of Parkway Global Holdings Limited), and is deemed to be interested in the 4,295,187,720 Class A Shares and 2,223,884,750 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 at the date of this interim report, the Company held 21.25% of the equity interest of Zimi International Incorporation, and Zimi International Incorporation is therefore an associated corporation of the Company. Koh Tuck Lye and Lei Jun are ultimately interested in Zimi International Incorporation as to approximately 21.25% (being 20,098,050 series A preferred shares and 2,000,000 series B preferred shares) and approximately 9.43% (being 9,803,900 ordinary shares), respectively.

(5) The Company is interested in 34.60% of the equity interest in SMARTMI International Ltd, and therefore SMARTMI International Ltd is an associated corporation of the Company. Koh Tuck Lye is ultimately interested in SMARTMI International Ltd as to approximately 33.99% (being 37,680,000 series A-1 preferred shares and 4,000,000 series A-2 preferred shares).

Save as disclosed above, as at the date of this interim report, 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 stated above, the Shares were not listed on the Stock Exchange as at June 30, 2018. Accordingly, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO were not applicable to the Company as at June 30, 2018. As at the date of this interim report, so far as the Directors are aware, the following parties (other than our Directors or chief executives 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	4,295,187,720	64.15%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	4,295,187,720	64.15%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	4,295,187,720	64.15%
ARK Trust (Hong Kong) Limited[2]	Trustee	4,295,187,720	64.15%
Class B Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	2,223,884,750	14.01%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	2,283,106,380	14.38%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	2,283,106,380	14.38%
ARK Trust (Hong Kong) Limited[2]	Trustee	2,283,106,380	14.38%
Qiming GP II, L.P.[3]	Interest in controlled corporations	821,582,140	5.17%
Qiming Corporate GP II, Ltd.[3]	Interest in controlled corporations	832,575,500	5.24%
Shi Jianming[4]	Interest in controlled corporations	2,847,825,550	17.93%
Lou Yiting[5]	Interest of spouse	2,847,825,550	17.93%
Ni Yuanyuan[6]	Interest of spouse	2,847,825,550	17.93%
Landmark Trust Switzerland SA[4]	Trustee	2,847,825,550	17.93%
Morningside-Springfield Group Limited[4]	Interest in controlled corporations	2,847,825,550	17.93%
Morningside Group International Limited[4]	Interest in controlled corporations	2,847,825,550	17.93%

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
Morningside Ventures Limited[4]	Interest in controlled corporations	2,847,825,550	17.93%
Morningside Venture (VII) Investments Limited[4]	Interest in controlled corporations	2,847,825,550	17.93%
TMT General Partner Ltd.[4]	Interest in controlled corporations	2,847,825,550	17.93%
Morningside China TMT GP, L.P.[4]	Interest in a controlled corporation	2,438,349,780	15.35%
Morningside China TMT Fund I, L.P.[4]	Beneficial interest	2,438,349,780	15.35%
Apoletto Managers Limited[7]	Interest in controlled corporations	1,449,637,550	9.13%
Cardew Services Limited[7]	Interest in controlled corporations	1,449,637,550	9.13%
Galileo (PTC) Limited[7]	Trustee	1,449,637,550	9.13%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as at the date of this interim report.

(2) The above interests of Smart Mobile Holdings Limited, Sunrise Vision Holdings Limited, Parkway Global Holdings Limited and ARK Trust (Hong Kong) Limited were also disclosed as the interests of Lei Jun in the above section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations".

(3) Qiming Venture Partners II, L.P. holds 755,432,330 Class B Shares, Qiming Venture Partners II-C, L.P. holds 66,149,810 Class B Shares and Qiming Managing Directors Fund II, L.P. holds 10,993,360 Class B Shares. The general partner of Qiming Venture Partners II, L.P. and Qiming Venture Partners II-C, L.P. is Qiming GP II L.P., a Cayman Islands exempted limited partnership, whose general partner is Qiming Corporate GP II, Ltd., a Cayman Islands limited company which is also the general partner of Qiming Managing Directors Fund II, L.P.

(4) TMT General Partner Ltd. controls Morningside China TMT GP, L.P. and Morningside China TMT GP II, L.P. which respectively control Morningside China TMT Fund I, L.P., which holds 2,438,349,780 Class B Shares, and Morningside China TMT Fund II, L.P, which holds 409,475,770 Class B Shares. Consequently, TMT General Partner Ltd. is deemed to be interested in the Shares in which the Morningside Funds have an interest.

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

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

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

(7) Apoletto China I, L.P. (holding 366,382,680 Class B Shares), Apoletto China II, L.P. (holding 378,595,440 Class B Shares), Apoletto China III, L.P. (holding 255,417,400 Class B Shares), Apoletto China IV, L.P. (holding 425,033,880 Class B Shares) and Apoletto Investments II, L.P. (holding 24,208,150 Class B Shares), are funds managed by Apoletto Mangers Limited, which is wholly-owned by Cardew Services Limited. Cardew Services Limited is held by Galileo (PTC) Limited as trustee for Cassiopeia Trust.

Save as disclosed above, as at the date of this interim report, 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.

Share Option Schemes

1. Pre-IPO Employee Share Option Plan

The Pre-IPO ESOP was approved and adopted by all the then shareholders of 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.

As of June 30, 2018, the Company has conditionally granted share options and RSUs to eligible participants pursuant to the Pre-IPO ESOP, entitling the holders to acquire an aggregate of 2,510,838,900 Class B Shares. No share options and RSUs had been granted to the Directors and other connected persons. All options under the Pre-IPO ESOP had been granted.

Further details of the Pre-IPO ESOP are set out in Note 23 to the unaudited interim condensed consolidated financial statements.

2. Post-IPO Share Option Scheme

A share option scheme (the "Post-IPO Share Option Scheme") was adopted pursuant to the written resolutions of the Shareholders passed on June 17, 2018. The terms of the Post-IPO Share Option Scheme are governed by Chapter 17 of the Listing Rules.

The purpose of the Post-IPO Share Option Scheme is to enable the Company to grant options to the eligible participants 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 the Shareholders as a whole. Eligible participants include any employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group or any affiliate as the Directors determine. The Post-IPO Share Option Scheme will provide the Company with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the selected participants.

As of June 30, 2018, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Post-IPO Share Option Scheme since its adoption.

3. XMF Share Option Scheme I

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. The XMF Share Option Scheme I will provide Xiaomi Finance with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to the selected participants.

As of June 30, 2018, options were granted to Lei Jun pursuant to the XMF Share Option Scheme I, entitling him to acquire an aggregate of 42,070,000 shares of Xiaomi Finance. No further options under the XMF Share Option Scheme I will be granted after the Listing Date.

OTHER INFORMATION

4. XMF Share Option Scheme II

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 eligible persons with the opportunity to acquire proprietary interests in Xiaomi Finance and to encourage eligible persons to work towards enhancing the value of Xiaomi Finance with an entrepreneurial mind set over the long term. Eligible persons include any employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of Xiaomi Finance and its subsidiaries or any affiliate as determined by the board of directors. The XMF Share Option Scheme II will provide Xiaomi Finance a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to eligible persons.

As of June 30, 2018, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the XMF Share Option Scheme II since its adoption.

5. Pinecone Share Option Scheme I

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 proving a means through which Pinecone International may grant equity-based incentives to attract, motivate, retain and reward certain officers, employees, directors, consultants, advisors and other eligible persons of Pinecone International or its affiliates, and to further link the interests of awarded recipients with those of Pinecone International's shareholders generally.

As of June 30, 2018, options were granted to 176 participants pursuant to the Pinecone Share Option Scheme I, entitling the holders to acquire an aggregate of 9,489,703 ordinary shares of Pinecone International. No options have been granted to Directors, senior managers or other connected persons of the Company. No further options will be granted by Pinecone International under the Pinecone Share Option Scheme I after the Listing Date.

6. **Pinecone Share Option Scheme II**

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 eligible persons with the opportunity to acquire proprietary interests in Pinecone International and to encourage eligible persons to work towards enhancing the value of Pinecone International and its shares for the benefit of Pinecone International and its shareholders as a whole. Eligible persons include any employee, director, officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of Pinecone International and its subsidiaries and consolidated affiliated entities or any affiliate as determined by the board of directors. The Pinecone Share Option Scheme II will provide Pinecone International with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to selected participants.

As of June 30, 2018, no options had been granted, agreed to be granted, exercised, cancelled or lapsed pursuant to the Pinecone Share Option Scheme II since its adoption.

Share Award Scheme

The Company also adopted the Share Award Scheme pursuant to the written resolutions of the Shareholders passed on June 17, 2018.

The purposes of the Share Award Scheme are (a) 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 (b) to encourage and retain eligible persons to make contributions to the long-term growth and profits of the Group.

As of June 30, 2018, no Class B Shares had been granted or agreed to be granted under the Share Award Scheme.

OTHER INFORMATION

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 WVR 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 WVR 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. Shareholders and prospective investors should make the decision to invest in the Company only after due and careful consideration.

As at the date of this interim report, the WVR Beneficiaries are Lei Jun and Lin Bin. Lei Jun beneficially owned 4,295,187,720 Class A Shares, representing approximately 51.85% 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 owned 2,400,000,000 Class A Shares, representing approximately 28.97% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held on behalf of Lin Bin and his family members by Lin Bin as trustee of Bin Lin Trust.

Class A Shares may be converted into Class B Shares on a one to one ratio. As at the date of this interim report, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 6,695,187,720 Class B Shares, representing 42.15% of the total number of issued and outstanding Class B Shares or 29.65% of the issued share capital of the Company.

The weighted voting rights attached to the 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 was incorporated in the Cayman Islands on January 5, 2010 with limited liability, and the Class B Shares were listed on the Main Board of the Stock Exchange on July 9, 2018 (i.e. the Listing Date).

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

As the shares of the Company were not yet listed on the Stock Exchange as of June 30, 2018, the principles and code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules were not applicable to the Company during the Reporting Period.

The Company has adopted the principles and code provisions of the CG Code as the basis of the Company's corporate governance practices with effect from the Listing Date.

Save for code provision A.2.1 of the CG Code, the Company has complied with all the code provisions set out in the CG Code throughout the period from the Listing Date to the date of this interim report.

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

Board will continue to review and consider segregating the roles of the chairman of the Board and the chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

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. The provisions under the Listing Rules in relation to compliance with the Model Code by the Directors regarding securities transactions have been applicable to the Company since the Listing Date. As the Shares were not yet listed on the Stock Exchange as of June 30, 2018, the Model Code was not applicable to the Company during the Reporting Period.

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 period from the Listing Date to the date of this interim report.

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

Save for the issuance of 201,486,000 Class B Shares on July 20, 2018 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated July 18, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the period from the Listing Date to the date of this interim report.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended June 30, 2018.

Use of Proceeds from the Global Offering

Upon the Listing, the proceeds from the Global Offering will be utilized for the purposes as set out in the Prospectus.

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, Chen Dongsheng, Koh Tuck Lye 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, 2018. 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.

The unaudited interim condensed consolidated financial report of the Group for the three months and six months ended June 30, 2018 has been separately reviewed by the Audit Committee and by the Company's external auditor in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the International Auditing and Assurance Standard Board.

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, Lee Ka Kit and Wong Shun Tak, with extensive experience in overseeing corporate governance related functions of private and Hong Kong listed companies. Chen Dongsheng is the chairman of the Corporate Governance Committee.

The following is a summary of work performed by the Corporate Governance Committee up to the date of this interim report:

- 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 Whistleblowing Policy.

- Reviewed the Company's compliance with the CG Code and the deviation from code provision A.2.1 of the CG Code and the Company's disclosure for compliance with Chapter 8A of the Listing Rules.

- Reviewed the management of conflicts of interests and risks relating to the weighted voting rights structure, and reviewed the relevant measures adopted by the Company, and made relevant recommendations to the Board to ensure good corporate governance standards and to avoid potential conflicts of interest between the Group/the Shareholders on one hand and the beneficiaries of weighted voting rights 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).

Qualification Requirements

Updates in Relation to the 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 ("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.

Efforts and Actions Undertaken to Comply with 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 business 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) Xiaomi Inc. has entered into an agreement with a third party in relation to the operation and management 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.

Because foreign investment in certain areas of the industry in which we currently and may operate are subject to restrictions under current laws of China and regulations outlined above, after consultation with our legal advisor as to the laws of China, 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 China 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.

OTHER INFORMATION

Material Litigation

As of June 30, 2018, 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 End of Reporting Period

On July 9, 2018, the Company successfully completed its initial public offering of 2,179,585,000 Class B Shares (comprising 1,434,440,000 new Class B Shares) at a price at HK$17.00 per share, and its Class B Shares was listed on the Main Board of the Stock Exchange. Additionally, the Company issued and allotted 201,486,000 Class B Shares on July 20, 2018 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated July 18, 2018. The gross proceeds received by the Company was approximately HK$27,810,742,000 (equivalent to approximately RMB23,525,107,000).

On July 9, 2018, all convertible redeemable preferred shares of the company were converted into Class B Shares upon completion of the initial public offering.

On July 20, 2018, the Hubei Yangtze River Industry Investment Fund Partner (Limited Partnership) (湖北小米長江產業基金合夥企業（有限合夥）) completed its registration with relevant government authority. Accordingly, funds of RMB3,235,211,000 that were recorded as restricted cash as of June 30, 2018 were transferred to cash and cash equivalents upon the completion of registration.

Save as disclosed above, no important events affecting the Company occurred since the Listing Date and up to the date of this interim report.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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 47 to 99, which comprises the interim condensed consolidated balance sheet of Xiaomi Corporation (the "Company") and its subsidiaries (together, the "Group") as of June 30, 2018 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".

Report on Review of Interim Financial Information

Other Matter

The comparative information for the interim condensed consolidated balance sheet is based on the audited financial statements as of December 31, 2017. The comparative information for the interim condensed consolidated income statements and the interim condensed consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2017, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period ended June 30, 2017, and related explanatory notes has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, August 22, 2018

UNAUDITED INTERIM CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months and six months ended June 30, 2018

(Expressed in Renminbi ("RMB"))

	Note	Unaudited Three months ended June 30, 2018 RMB'000	Unaudited Three months ended June 30, 2017 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Revenue	6	**45,235,473**	26,879,009	**79,647,835**	45,410,802
Cost of sales	9	**(39,583,661)**	(23,031,378)	**(69,694,596)**	(39,099,053)
Gross profit		**5,651,812**	3,847,631	**9,953,239**	6,311,749
Selling and marketing expenses	9	**(2,075,709)**	(1,143,514)	**(3,478,538)**	(1,870,371)
Administrative expenses	9	**(10,456,916)**	(228,839)	**(10,922,239)**	(469,048)
Research and development expenses	9	**(1,363,619)**	(707,311)	**(2,467,394)**	(1,312,000)
Fair value changes on investments measured at fair value through profit or loss	15	**526,910**	1,738,300	**2,289,778**	2,918,000
Share of losses of investments accounted for using the equity method	10	**(128,512)**	(84,610)	**(112,183)**	(151,014)
Other income	7	**207,315**	172,901	**365,541**	197,057
Other gains/(losses), net	8	**46,757**	64,741	**144,324**	(10,578)
Operating (loss)/profit		**(7,591,962)**	3,659,299	**(4,227,472)**	5,613,795
Finance (expense)/income, net		**(32,330)**	4,480	**(14,496)**	(7,641)
Fair value changes of convertible redeemable preferred shares	22	**22,532,721**	(15,004,165)	**12,461,345**	(24,468,644)
Profit/(loss) before income tax		**14,908,429**	(11,340,386)	**8,219,377**	(18,862,490)
Income tax expenses	11	**(275,782)**	(626,185)	**(614,141)**	(971,100)
Profit/(loss) for the period		**14,632,647**	(11,966,571)	**7,605,236**	(19,833,590)
Profit/(loss) attributable to:					
— Owners of the Company		**14,651,318**	(11,960,551)	**7,646,195**	(19,806,442)
— Non-controlling interests		**(18,671)**	(6,020)	**(40,959)**	(27,148)
		14,632,647	(11,966,571)	**7,605,236**	(19,833,590)
Earnings/(loss) per share (expressed in RMB per share)	12				
Basic		**1.409**	(1.226)	**0.759**	(2.030)
Diluted		**(0.377)**	(1.226)	**(0.234)**	(2.030)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and six months ended June 30, 2018

(Expressed in RMB)

	Note	Unaudited Three months ended June 30, 2018 RMB'000	Unaudited Three months ended June 30, 2017 RMB'000	Unaudited Six months ended June 30, 2018 RMB'000	Unaudited Six months ended June 30, 2017 RMB'000
Profit/(loss) for the period		**14,632,647**	(11,966,571)	**7,605,236**	(19,833,590)
Other comprehensive (loss)/income:					
Items that may be reclassified to profit or loss					
Share of other comprehensive income/(loss) of investments accounted for using the equity method	10	**125,515**	(7,550)	**111,153**	(6,897)
Currency translation differences		**(212,762)**	(26,811)	**(399,244)**	(22,666)
Item that will not be reclassified subsequently to profit or loss					
Currency translation differences		**(7,392,513)**	2,296,789	**(1,480,779)**	2,876,660
Other comprehensive (loss)/income for the period, net of tax		**(7,479,760)**	2,262,428	**(1,768,870)**	2,847,097
Total comprehensive income/(loss) for the period		**7,152,887**	(9,704,143)	**5,836,366**	(16,986,493)
Attributable to:					
— Owners of the Company		**7,163,993**	(9,694,520)	**5,875,458**	(16,955,302)
— Non-controlling interests		**(11,106)**	(9,623)	**(39,092)**	(31,191)
		7,152,887	(9,704,143)	**5,836,366**	(16,986,493)

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2018

(Expressed in RMB)

	Note	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
Assets			
Non-current assets			
Land use rights		**3,377,517**	3,416,359
Property and equipment	13	**2,394,155**	1,730,872
Intangible assets	14	**2,176,439**	2,274,352
Investments accounted for using the equity method	10	**7,495,225**	1,710,819
Long-term investments measured at fair value through profit or loss	15	**16,229,340**	18,856,961
Deferred income tax assets	21	**946,928**	591,576
Other non-current assets		**132,189**	150,361
		32,751,793	28,731,300
Current assets			
Inventories	18	**21,740,309**	16,342,928
Trade receivables	16	**7,112,042**	5,469,507
Loan receivables		**8,795,925**	8,144,493
Prepayments and other receivables	17	**15,289,506**	11,393,910
Short-term investments measured at amortized cost	15	**—**	800,000
Short-term investments measured at fair value through profit or loss	15	**7,900,902**	4,488,076
Short-term bank deposits		**1,198**	225,146
Restricted cash		**4,587,069**	2,711,119
Cash and cash equivalents		**14,894,150**	11,563,282
		80,321,101	61,138,461
Total assets		**113,072,894**	89,869,761

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2018

(Expressed in RMB)

	Note	Unaudited As of June 30, 2018 RMB'000	Audited As of December 31, 2017 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	19	161	150
Reserves		(110,431,652)	(127,272,511)
		(110,431,491)	(127,272,361)
Non-controlling interests		93,940	61,670
Total equity		(110,337,551)	(127,210,691)
Liabilities			
Non-current liabilities			
Borrowings	20	4,601,862	7,251,312
Deferred income tax liabilities	21	1,043,484	1,018,651
Warranty provision		239,272	191,404
Convertible redeemable preferred shares	22	150,563,894	161,451,203
Other non-current liabilities	24	2,665,697	35,211
		159,114,209	169,947,781
Current liabilities			
Trade payables	25	44,966,287	34,003,331
Other payables and accruals	26	4,624,944	4,223,979
Advance from customers		3,771,828	3,390,650
Borrowings	20	7,950,151	3,550,801
Income tax liabilities		481,345	421,113
Warranty provision		2,501,681	1,542,797
		64,296,236	47,132,671
Total liabilities		223,410,445	217,080,452
Total equity and liabilities		113,072,894	89,869,761

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2018

(Expressed in RMB)

		Unaudited						
		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2018		150	742,760	947,420	(128,962,691)	(127,272,361)	61,670	(127,210,691)
Comprehensive income								
Profit for the period		—	—	—	7,646,195	7,646,195	(40,959)	7,605,236
Other comprehensive loss								
Items that may be reclassified to profit or loss								
Share of other comprehensive income of investments accounted for using the equity method	10	—	—	111,153	—	111,153	—	111,153
Currency translation differences		—	—	(401,111)	—	(401,111)	1,867	(399,244)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences		—	—	(1,480,779)	—	(1,480,779)	—	(1,480,779)
Total comprehensive income		—	—	(1,770,737)	7,646,195	5,875,458	(39,092)	5,836,366
Transactions with owners in their capacity as owners								
Issuance of ordinary shares	19	11	9,827,146	—	—	9,827,157	—	9,827,157
Share of other reserves of investments accounted for using the equity method	10	—	—	16,839	—	16,839	—	16,839
Employees share-based compensation scheme:								
— value of employee services	23	—	—	1,042,443	—	1,042,443	102,608	1,145,051
Acquisition of additional equity interests in non-wholly owned subsidiaries		—	230,899	(145,617)	—	85,282	(32,746)	52,536
Others		—	—	(6,309)	—	(6,309)	1,500	(4,809)
Total transactions with owners in their capacity as owners		11	10,058,045	907,356	—	10,965,412	71,362	11,036,774
Balance at June 30, 2018		161	10,800,805	84,039	(121,316,496)	(110,431,491)	93,940	(110,337,551)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2018

(Expressed in RMB)

		Unaudited						
		Attributable to owners of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2017		150	742,760	(8,124,355)	(84,810,225)	(92,191,670)	133,795	(92,057,875)
Comprehensive loss								
Loss for the period		–	–	–	(19,806,442)	(19,806,442)	(27,148)	(19,833,590)
Other comprehensive income								
Items that may be reclassified to profit or loss								
Share of other comprehensive loss of investments accounted for using the equity method	10	–	–	(6,897)	–	(6,897)	–	(6,897)
Currency translation differences		–	–	(18,623)	–	(18,623)	(4,043)	(22,666)
Item that will not be reclassified subsequently to profit or loss								
Currency translation differences		–	–	2,876,660	–	2,876,660	–	2,876,660
Total comprehensive loss		–	–	2,851,140	(19,806,442)	(16,955,302)	(31,191)	(16,986,493)
Transactions with owners in their capacity as owners								
Share of other reserves of investments accounted for using the equity method	10	–	–	17,939	–	17,939	–	17,939
Employees share-based compensation scheme:								
– value of employee services	23	–	–	265,948	–	265,948	–	265,948
Total transactions with owners in their capacity as owners		–	–	283,887	–	283,887	–	283,887
Balance at June 30, 2017		150	742,760	(4,989,328)	(104,616,667)	(108,863,085)	102,604	(108,760,481)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2018

(Expressed in RMB)

	Note	Unaudited Six months ended June 30, 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations		**7,050,130**	2,386,430
Income tax paid		**(928,587)**	(447,792)
Net cash generated from operating activities		**6,121,543**	1,938,638
Cash flows from investing activities			
Capital expenditures		**(1,014,684)**	(430,315)
Proceeds from disposal of property and equipment		**32,204**	1,741
Placement of short-term bank deposits		**(7,121)**	(61,953)
Withdrawal of short-term bank deposits		**210,223**	387,275
Purchase of short-term investments measured at fair value through profit or loss		**(60,959,000)**	(37,015,000)
Receipt from maturity of short-term investments measured at fair value through profit or loss		**57,674,066**	35,424,598
Purchase of short-term investments measured at amortized cost		**(3,500,000)**	(1,944,000)
Receipt from maturity of short-term investments measured at amortized cost		**4,300,000**	1,684,000
Interest income received		**201,874**	78,110
Investment income received		**95,390**	44,060
Purchase of long-term investments measured at fair value through profit or loss		**(910,642)**	(198,869)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		**159,755**	52,926
Purchase of investments accounted for using the equity method		**(167,307)**	(10,659)
Proceeds from disposal of investments accounted for using the equity method		**100**	42,298
Disposal of a subsidiary		**(25,655)**	—
Acquisition of a subsidiary, net of cash acquired		**(34,907)**	—
Dividends received		**119,975**	128,454
Net cash used in investing activities		**(3,825,729)**	(1,817,334)

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2018

(Expressed in RMB)

	Note	Unaudited Six months ended June 30, 2018 RMB'000	2017 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**4,834,739**	3,144,092
Repayment of borrowings		**(3,066,095)**	(300,000)
Finance expenses paid		**(136,958)**	(28,997)
Placement of restricted cash		**(3,304,338)**	(264,202)
Withdrawal of restricted cash		**254,834**	416,220
Payment for acquisition of non-controlling interests in a non-wholly owned subsidiary		**(20,000)**	—
Proceeds from fund partners	24	**2,631,000**	—
Net cash generated from financing activities		**1,193,182**	2,967,113
Net increase in cash and cash equivalents		**3,488,996**	3,088,417
Cash and cash equivalents at the beginning of the period		**11,563,282**	9,230,320
Effects of exchange rate changes on cash and cash equivalents		**(158,128)**	(238,164)
Cash and cash equivalents at end of the period		**14,894,150**	12,080,573

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED 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 this financial information.

The interim condensed consolidated financial information comprises the interim condensed consolidated balance sheet as of June 30, 2018, 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 "Interim Financial Information"). The Interim Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

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 an annual financial statements. Accordingly, it should be read in conjunction with the financial information for the year ended December 31, 2017 as set out in the accountant's report (the "Accountant's Report") included in Appendix I to the prospectus of the Group in connection with the initial public offering of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE") dated June 25, 2018.

2. Basis of preparation (continued)

As of June 30, 2018, the Group had net liabilities of RMB110,337,551,000 and accumulated losses of RMB121,316,496,000, respectively, primarily due to the significant fair value changes of convertible redeemable preferred shares ("Preferred Shares"). All Preferred Shares were converted into class B ordinary shares upon completion of the Company's initial public offering on the Main Board of HKSE on July 9, 2018. The Preferred Shares will not have cash flow impact to the Group in the next twelve months from the date of the report.

As of June 30, 2018, the Group had net current asset of RMB16,024,865,000. In addition, the Group has performed a working capital forecast for the next twelve months. Accordingly, the directors believe that the Group will have sufficient cash resources to satisfy its future working capital in the next twelve months from the date of the report and they consider that it is appropriate that the Interim Financial Information is prepared on a going concern basis.

3. Significant accounting policies

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

There is no new standard and amendment to existing standards adopted by the Group, except for those disclosed in the Accountant's Report.

(b) Impact of standards issued but not yet applied by the entity

International Financial Reporting Standards 16 "Leases" ("IFRS 16") was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The scopes, areas and approaches of the management's assessment of the impact of IFRS 16 were set out in the Company's Accountant's Report. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after January 1, 2019. The Group is continuing to assess the specific impact upon of the adoption of IFRS 16 on the relevant financial statement areas and will conduct a more detailed assessment on the impact as information become available closer to the planned initial date of adoption. The Group does not intend to adopt the standard before its effective date.

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 the same as those applied to the Accountant's Report.

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 Accountant's Report and there have been no significant changes in the financial risk management policies for the three months and six months ended June 30, 2018.

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).

5. Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at June 30, 2018.

	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 15)	5,872,802	—	10,356,538	16,229,340
Short-term investments measured at fair value through profit or loss (Note 15)	—	—	7,900,902	7,900,902
	5,872,802	—	18,257,440	24,130,242
Liabilities				
Convertible redeemable preferred shares (Note 22)	—	—	150,563,894	150,563,894

5. Financial risk management and financial instruments (continued)

5.2 Fair value estimation (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2017.

	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 15)	5,764,532	—	13,092,429	18,856,961
Short-term investments measured at fair value through profit or loss (Note 15)	—	—	4,488,076	4,488,076
	5,764,532	—	17,580,505	23,345,037
Liabilities				
Convertible redeemable preferred shares (Note 22)	—	—	161,451,203	161,451,203

(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.

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 and liabilities include long-term investments measured at fair value through profit or loss, short-term investments measured at fair value through profit or loss and Preferred Shares.

The changes in level 3 instruments of Preferred Shares for the six months ended June 30, 2017 and 2018 are presented in the Note 22.

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, 2017 and 2018.

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	13,092,429	9,046,509
Additions	716,220	144,438
Disposals	(115,798)	(37,749)
Changes in fair value	2,558,209	1,624,332
Transfer to long-term investments accounted for using the equity method	(5,465,081)	—
Transfer to level 1 financial instruments	(347,123)	—
Exchange losses	(82,318)	(182,086)
At the end of the period	10,356,538	10,595,444
Net unrealized gains for the period	649,880	1,602,431

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, 2017 and 2018.

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	**4,488,076**	3,437,537
Additions	**60,959,000**	37,015,000
Disposals	**(57,674,066)**	(35,424,598)
Changes in fair value	**127,892**	58,705
At the end of the period	**7,900,902**	5,086,644
Net unrealized gains for the period	**32,502**	14,645

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 Preferred Shares (Note 22), long-term investments measured at fair value through profit or loss in unlisted companies (Note 15) and short-term investments measured at fair value through profit or loss (Note 15). 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. Major assumptions used in the valuation for Preferred Shares are presented in Note 22.

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 As of June 30, 2018 RMB'000 (Unaudited)	Fair values As of December 31, 2017 RMB'000 (Audited)	Significant unobservable inputs	Range of inputs As of June 30, 2018	Range of inputs As of December 31, 2017	Relationship of unobservable inputs to fair values
Investments in unlisted companies measured at fair value through profit or loss	**10,356,538**	13,092,429	Expected volatility	**32%–59%**	26%–63%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	**5%–25%**	2%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	**2%–3%**	0%–4%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	**7,900,902**	4,488,076	Expected rate of return	**2%–5%**	2%–5%	The higher the expected rate of return, the higher the fair value

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, 2018, except that certain financial assets were transferred out of level 3 of fair value hierarchy classifications due to the conversion to ordinary shares as the result of the initial public offering of the investee companies.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash, short-term investments measured at amortized cost, trade receivables, loan receivables and other receivables, and the Group's financial liabilities, including borrowing, trade payables and other payables, approximate their fair values due to their short maturities.

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 losses of investments accounted for using the equity method, other income, other gains/(losses), net, finance (expense)/income, net, fair value changes of convertible redeemable preferred shares, and income tax expenses are also not allocated to individual operating segments.

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. Others segment primarily comprises revenue from the Group's hardware repair services for products.

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. Other information, together with the segment information, provided to the CODM, is measured in a manner consistent with that applied in the consolidated financial statements. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

There were no material inter-segment sales during the three months and six months ended June 30, 2017 and 2018. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the interim condensed consolidated income statements.

6. Segment information (continued)

The segment results for the three months and six months ended June 30, 2017 and 2018 are as follows:

	Three months ended June 30, 2018				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
(Unaudited)					
Segment revenues	30,501,122	10,378,798	3,958,220	397,333	45,235,473
Cost of sales	(28,458,873)	(9,399,472)	(1,472,999)	(252,317)	(39,583,661)
Gross profit	2,042,249	979,326	2,485,221	145,016	5,651,812

	Three months ended June 30, 2017				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
(Unaudited)					
Segment revenues	19,218,738	5,080,875	2,419,590	159,806	26,879,009
Cost of sales	(17,541,275)	(4,485,283)	(909,033)	(95,787)	(23,031,378)
Gross profit	1,677,463	595,592	1,510,557	64,019	3,847,631

	Six months ended June 30, 2018				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
(Unaudited)					
Segment revenues	53,740,612	18,075,364	7,189,570	642,289	79,647,835
Cost of sales	(50,352,247)	(16,274,494)	(2,692,412)	(375,443)	(69,694,596)
Gross profit	3,388,365	1,800,870	4,497,158	266,846	9,953,239

6. Segment information (continued)

	Six months ended June 30, 2017				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)					
Segment revenues	31,412,590	9,241,540	4,449,227	307,445	45,410,802
Cost of sales	(29,016,741)	(8,176,034)	(1,713,745)	(192,533)	(39,099,053)
Gross profit	2,395,849	1,065,506	2,735,482	114,912	6,311,749

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in mainland China. For the three months and six months ended June 30, 2017 and 2018, the geographical information on the total revenues is as follows:

	Three months ended June 30,				**Six months ended June 30,**			
	2018		2017		**2018**		2017	
	RMB'000	**%**	RMB'000	%	**RMB'000**	**%**	RMB'000	%
	(Unaudited)		(Unaudited)		**(Unaudited)**		(Unaudited)	
Mainland China	**28,823,107**	**63.7**	20,357,219	75.7	**50,765,210**	**63.7**	34,586,069	76.2
Rest of the world	**16,412,366**	**36.3**	6,521,790	24.3	**28,882,625**	**36.3**	10,824,733	23.8
	45,235,473		26,879,009		**79,647,835**		45,410,802	

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, 2017 and 2018 are listed as below:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	%	%	%	%
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Customer A	13.4	16.7	12.4	15.3

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, 2018.

7. Other income

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Government grants	28,814	45,610	117,095	53,166
Value-added tax and other tax refunds	1,067	1,625	13,436	1,642
Dividend income	119,975	92,595	119,975	95,299
Investment income from short-term investments measured at fair value through profit or loss	51,955	32,192	95,390	44,060
Investment income from short-term investments measured at amortized cost	5,504	879	19,645	2,890
	207,315	172,901	365,541	197,057

8. Other gains/(losses), net

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Remeasurement of investments transferring from financial asset measured at fair value through profit or loss to investments accounted for using the equity method	—	—	126,614	—
Net (losses)/gains on disposals of long-term investments measured at fair value through profit or loss	(10,310)	21,910	20,763	21,913
Gains on disposal of an investment accounted for using the equity method	—	94,516	—	94,516
Foreign exchanges gains/(losses), net	74,693	(62,317)	46,556	(138,971)
Others	(17,626)	10,632	(49,609)	11,964
	46,757	64,741	144,324	(10,578)

9. Expenses by nature

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Cost of inventories sold	**35,821,152**	20,680,207	**62,984,283**	35,042,832
Provision for impairment of inventories (Note 18)	**192,703**	96,964	**514,468**	164,239
Royalty fees	**1,175,237**	800,564	**1,956,131**	1,334,448
Employee benefit expenses (Note (a))	**11,642,896**	878,984	**13,162,180**	1,608,118
Depreciation of property and equipment	**52,622**	47,909	**95,962**	91,559
Amortization of intangible assets	**107,609**	33,609	**247,727**	63,679
Promotion and advertising expenses	**786,498**	414,440	**1,124,097**	577,847
Content fees to game developers and video providers	**480,941**	307,150	**901,865**	613,487
Provision for loan receivables	**163,961**	90,849	**232,754**	105,716
Consultancy and professional service fees	**171,839**	104,386	**284,980**	167,742
Cloud service, bandwidth and server custody fees	**398,199**	221,448	**733,197**	426,038
Office rental expenses	**126,935**	68,749	**232,475**	130,215
Warranty expenses	**822,647**	525,579	**1,408,892**	786,460

Note:

(a) For the six months ended June 30, 2018, the employee benefit expenses comprise one-off share-based compensation amounting to approximately RMB9,929,765,000, the details of which are presented in Note 23.

10. Investments accounted for using the equity method

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Investments in associate accounted for using the equity method		
— Listed entities	5,949,894	386,490
— Unlisted entities	1,545,331	1,324,329
	7,495,225	1,710,819

	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
At the beginning of the period	1,710,819	1,852,563
Additions (Note (a))	5,768,697	10,659
Disposals	(100)	(42,298)
Share of losses	(112,183)	(151,014)
Share of other comprehensive income/(loss)	111,153	(6,897)
Share of changes of other reserves	16,839	17,939
Dividends	—	(33,155)
At the end of the period	7,495,225	1,647,797

Note:

(a) On March 29, 2018, iQIYI, Inc. ("iQIYI"), an investment engaging in the provision of internet video streaming services in mainland China, for which the Group accounted as long-term investments measured at fair value through profit or loss, has undergone initial public offering by listing certain of its new ordinary shares on the Nasdaq Stock Exchange, and a fair value change gain amounting to approximately RMB1,591,989,000 was recognized by the Group. The conversion of the preference shares in iQIYI owned by the Group into ordinary shares was completed on April 2, 2018, following which the Group reclassifies the investment in associate measured at fair value through profit or loss to an investment accounted for using the equity method.

10. Investments accounted for using the equity method (continued)

Management has assessed the level of influence that the Group exercises on these associates, with a total carrying amount of RMB1,710,819,000, and RMB7,495,225,000 as of December 31, 2017 and June 30, 2018, respectively, and determined that it has significant influence through the board representation, even though the respective shareholding of some investments is below 20%. Accordingly, these investments have been classified as associates.

11. Income tax expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current income tax	**553,562**	454,544	**948,210**	678,157
Deferred income tax	**(277,780)**	171,641	**(334,069)**	292,943
Income tax expenses	**275,782**	626,185	**614,141**	971,100

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

Notes:

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

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

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the fair value loss of Preferred Shares (Note 22), is not subject to any income tax.

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

11. Income tax expenses (continued)

Notes (continued):

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the assessable profits for the periods presented, based on the existing legislation, interpretations and practices in respect thereof.

(d) India income tax

The income tax provisions for India entities were calculated at effective tax rates of 30% 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 are entitled to preferential tax rates ranging from 9% to 15%. Main subsidiaries with preferential EIT rates are as follows:

Beijing Xiaomi Mobile Software Co., Ltd. was qualified as a "high and new technology enterprise", and enjoys a preferential income tax rate of 15% for the six months ended June 30, 2017 and 2018.

Tibet Zimi Communications Co., Ltd., established in the Tibet Autonomous Region of the People's Republic of China, is entitled to a preferential rate of the Chinese Western Development Strategy of 15% in all the periods presented, and extra regional exemption 6% from the local Tax Administration from January 1, 2015 to December 31, 2017. Accordingly, the EIT rates are 9% and 15% the six months ended June 30, 2017 and 2018, respectively.

(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 are entitled to claim 150% of certain qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). 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 all the periods presented.

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

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

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

12. Earnings/(loss) per share

On June 17, 2018, pursuant to the shareholders' resolution, each existing issued and unissued share of US$0.000025 each in the share capital of the Company were subdivided into 10 shares of US$0.0000025 each ("Share Subdivision"). Following the Share Subdivision, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the three months and six months ended June 30, 2017 and 2018 has been retrospectively adjusted.

(a) Basic

Basic earnings or loss per share for the three months and six months ended June 30, 2017 and 2018 are calculated by dividing the profit or loss attributable to the Company's owners by the weighted average number of ordinary shares in issue during the periods.

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Net profit/(loss) attributable to the owners of the Company	**14,651,318**	(11,960,551)	**7,646,195**	(19,806,442)
Weighted average number of ordinary shares in issue (Note) (thousand shares)	**10,398,712**	9,758,173	**10,080,295**	9,758,173
Basic earnings/(loss) per share (Note) (expressed in RMB per share)	**1.409**	(1.226)	**0.759**	(2.030)

Note: Weighted average number of ordinary shares in issue and basic earnings/(loss) per share were calculated taken into account the effect of the Share Subdivision.

As of June 30, 2018, 24,000,000 ordinary shares were issued to several employees. However, the shareholders' rights of these shares were restricted and would be vested over certain service periods. Accordingly, these shares were accounted for as restricted stock units (RSUs). The Group did not include these ordinary shares in the calculation of basic earnings/(loss) per share for the three months and six months ended June 30, 2018 as these shares are not considered outstanding for earnings/(loss) per share calculation purposes.

12. Earnings/(loss) per share (continued)

(b) Diluted

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

As the Group incurred losses for the three months and six months ended June 30, 2017, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for the three months and six months ended June 30, 2017 is same as basic loss per share of respective periods.

For the three months and six months ended June 30, 2018, diluted loss per share was calculated by considering that (i) the share options and most RSUs were not dilutive potential ordinary shares as they could not be exercised and settled until the Company completes its qualified public offering or approved by the board and such contingent events had not taken place; (ii) the impact of share options of Xiaomi Finance Inc., a wholly owned subsidiary of the Company ("Xiaomi Finance") granted to Lei Jun were not dilutive, as Xiaomi Finance was in loss position for the three months and six months ended June 30, 2018; (iii) the Preferred Shares issued by the Company were assumed to have been converted into ordinary shares and the net profit attributable to the owners of the Company was adjusted to eliminate the fair value gain of Preferred Shares, they were included in the diluted weighted average number of ordinary shares calculation, as their effect would have been dilutive.

12. Earnings/(loss) per share (continued)

(b) Diluted (continued)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Net profit/(loss) attributable to the owners of the Company	**14,651,318**	(11,960,551)	**7,646,195**	(19,806,442)
Less: Fair value gain of Preferred Shares	**(22,532,721)**	—	**(12,461,345)**	—
Net loss used to determine diluted loss per share	**(7,881,403)**	(11,960,551)	**(4,815,150)**	(19,806,442)
Weighted average number of ordinary shares in issue (Note) (thousand shares)	**10,398,712**	9,758,173	**10,080,295**	9,758,173
Adjustments for RSUs granted to employees (Note) (thousand shares)	**22,456**	—	**22,456**	—
Adjustments for Preferred Shares (Note) (thousand shares)	**10,504,922**	—	**10,504,922**	—
Weighted average number of ordinary shares for calculation of diluted loss per share (Note) (thousand shares)	**20,926,090**	9,758,173	**20,607,673**	9,758,173
Diluted loss per share (Note) (expressed in RMB per share)	**(0.377)**	(1.226)	**(0.234)**	(2.030)

Note: Weighted average number of ordinary shares in issue, adjustments for RSUs granted to employees, adjustments for Preferred Shares, weighted average number of ordinary shares for calculation of diluted loss per share and diluted loss per share were calculated taken into account the effect of the Share Subdivision.

13. Property and equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
(Unaudited)					
Six months ended June 30, 2018					
Opening net book amount	124,927	2,447	129,737	1,473,761	1,730,872
Currency translation differences	(285)	326	(113)	—	(72)
Additions	117,352	13,539	128,044	547,650	806,585
Disposals/transfer	(284)	(1)	—	(46,983)	(47,268)
Depreciation charge	(34,314)	(1,426)	(60,222)	—	(95,962)
Closing net book amount	207,396	14,885	197,446	1,974,428	2,394,155
At June 30, 2018					
Cost	534,941	28,001	454,753	1,974,428	2,992,123
Accumulated depreciation	(327,545)	(13,116)	(257,307)	—	(597,968)
Net book amount	207,396	14,885	197,446	1,974,428	2,394,155
(Unaudited)					
Six months ended June 30, 2017					
Opening net book amount	160,656	5,049	40,091	642,581	848,377
Currency translation differences	1,253	(875)	860	—	1,238
Additions	22,631	18	85,450	371,523	479,622
Disposals	(1,160)	(5)	—	—	(1,165)
Depreciation charge	(45,914)	(874)	(44,771)	—	(91,559)
Closing net book amount	137,466	3,313	81,630	1,014,104	1,236,513
At June 30, 2017					
Cost	395,175	14,360	249,588	1,014,104	1,673,227
Accumulated depreciation	(257,709)	(11,047)	(167,958)	—	(436,714)
Net book amount	137,466	3,313	81,630	1,014,104	1,236,513

Construction in progress as of June 30, 2017 and June 30, 2018 mainly comprises new office buildings being constructed in mainland China.

14. Intangible assets

	Goodwill RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
(Unaudited)					
Six months ended June 30, 2018					
Opening net book amount	248,167	1,279,951	723,205	23,029	2,274,352
Currency translation differences	—	—	(17,992)	(1,509)	(19,501)
Additions	33,923	1,096	82,027	59,459	176,505
Disposals	—	(7,190)	—	—	(7,190)
Amortization charge	—	(166,410)	(66,251)	(15,066)	(247,727)
Closing net book amount	282,090	1,107,447	720,989	65,913	2,176,439
At June 30, 2018					
Cost	282,090	1,337,591	1,068,187	167,020	2,854,888
Accumulated amortization	—	(230,144)	(347,198)	(101,107)	(678,449)
Net book amount	282,090	1,107,447	720,989	65,913	2,176,439
(Unaudited)					
Six months ended June 30, 2017					
Opening net book amount	248,167	371,579	474,814	25,573	1,120,133
Currency translation differences	—	—	(3,099)	(61)	(3,160)
Additions	—	—	31,995	14,420	46,415
Amortization charge	—	(97)	(53,273)	(10,309)	(63,679)
Closing net book amount	248,167	371,482	450,437	29,623	1,099,709
At June 30, 2017					
Cost	248,167	375,939	668,825	102,455	1,395,386
Accumulated amortization	—	(4,457)	(218,388)	(72,832)	(295,677)
Net book amount	248,167	371,482	450,437	29,623	1,099,709

15. Investments

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Current assets		
Short-term investments measured at		
— Amortized cost	—	800,000
— Fair value through profit or loss (Note (a))	7,900,902	4,488,076
	7,900,902	5,288,076
Non-current assets		
Long-term investments measured at fair value through profit or loss		
— Equity investments	7,873,585	7,448,251
— Preferred shares investments (Note (b))	8,355,755	11,408,710
	16,229,340	18,856,961

Notes:

(a) Represents RMB-denominated wealth management products whose returns are not guaranteed.

(b) For the six months ended June 30, 2018, the Group made aggregate preferred shares investments of RMB592,638,000. These investees are principally engaged in sales of goods and provision of internet services.

All of these investments are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss.

The conversion of the preference shares in iQIYI owned by the Group into ordinary shares was completed on April 2, 2018, following which the Group reclassifies the associate to the investments accounted for using the equity method (Note 10).

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

15. Investments (continued)

Amounts recognized in profit or loss

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Fair value changes on equity investments	98,853	760,238	185,904	1,330,893
Fair value changes on preferred shares investments	407,209	963,952	2,071,372	1,572,462
Fair value changes on short-term investments measured at fair value through profit or loss	20,848	14,110	32,502	14,645
	526,910	1,738,300	2,289,778	2,918,000

16. Trade receivables

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

	As of June 30, 2018	As of December 31, 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables		
Up to 3 months	6,684,758	5,099,590
3 to 6 months	393,532	302,354
6 months to 1 year	35,616	39,028
1 to 2 years	20,009	53,613
Over 2 years	39,969	31,742
	7,173,884	5,526,327
Less: allowance for impairment	(61,842)	(56,820)
	7,112,042	5,469,507

16. Trade receivables (continued)

Majority of the Group's trade receivables were denominated in RMB and Indian Rupee.

Trade receivables balances as of December 31, 2017 and June 30, 2018 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 expected credit losses also incorporate forward looking information. As of June 30, 2018, insignificant amount of impairment provision was recognized based on the expected credit losses model.

17. Prepayments and other receivables

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Receivables from subcontractors for outsourcing of raw materials	8,462,575	5,663,419
Recoverable value-added tax and other taxes	4,366,586	3,387,401
Prepayments to suppliers	360,158	304,286
Deposits to suppliers	391,048	96,913
Receivables from market development fund	339,565	199,751
Prepaid fees for advertising, rental and other prepaid expenses	272,408	195,592
Receivables from import and export agents	193,916	644,766
Receivables from employees related to Employee Fund (Note 23)	113,450	114,850
Interest receivables	92,737	104,521
Receivables from disposal of investments	64,098	108,056
Loans to related parties	58,522	62,143
Others	574,443	512,212
	15,289,506	11,393,910

18. Inventories

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Raw materials	**9,313,293**	5,117,285
Finished goods	**8,139,036**	8,461,798
Work in progress	**3,117,666**	1,352,886
Spare parts	**1,036,899**	1,569,040
Others	**500,316**	510,061
	22,107,210	17,011,070
Less: provision for impairment (Note (a))	**(366,901)**	(668,142)
	21,740,309	16,342,928

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 interim condensed consolidated income statements. The provision for impairment expenses of inventory amounted to RMB164,239,000 and RMB514,468,000 for the six months ended June 30, 2017 and 2018, respectively.

19. Share capital

Authorized:

	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Number of Preferred Shares '000	Nominal value of Preferred Shares US$'000
As of January 1, 2018	3,489,594	87	1,051,251	26
Effect of Share Subdivision	31,406,346	—	9,461,259	—
As of June 30, 2018 (unaudited)	34,895,940	87	10,512,510	26

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, 2018	978,217	24	150	742,760
Issuance of ordinary shares (Note (a))	1,500	—	—	230,899
Issuance of ordinary shares to Lei Jun (Note(b))	63,960	2	11	9,827,146
Effect of Share Subdivision	9,393,092	—	—	—
As of June 30, 2018 (unaudited)	10,436,769	26	161	10,800,805

Notes:

(a) Pursuant to the shareholders' resolution passed on March 30, 2018, 1,500,000 Class B ordinary shares (or 15,000,000 Class B ordinary shares following the Share Subdivision) were issued as consideration shares in exchange for certain indirect equity interests in Timi Personal Computing Co., Ltd.

(b) On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

20. Borrowings

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Included in non-current liabilities		
Asset-backed securities (Note (a))	—	2,400,105
Fund raised through trusts (Note (b))	—	400,000
Secured borrowings (Note (c))	879,216	714,107
Unsecured borrowings (Note (e))	3,722,646	3,737,100
	4,601,862	7,251,312
Included in current liabilities		
Pledged borrowings (Note (d))	350,000	729,404
Asset-backed securities (Note (a))	2,466,971	1,491,147
Fund raised through trusts (Note (b))	2,016,540	1,170,250
Unsecured borrowings (Note (e))	3,116,640	160,000
	7,950,151	3,550,801

Notes:

(a) During the six months ended June 30, 2018, asset-backed securities ("ABS") amounting to RMB1,424,281,000 was repaid and no additional ABS was issued by the Group.

(b) The Group has securitized certain loan receivables and raised several rounds of funds through third party trusts. During the six months ended June 30, 2018, the funds amounting to RMB1,116,700,000 were repaid and RMB1,562,990,000 were issued. As of June 30, 2018, borrowings of RMB1,616,540,000 bore interest at 5.7%-6.2% per annum in 2018. The Group is committed to unconditionally repurchase the aforementioned securitized loan receivables. The borrowings will mature in 2018 and 2019.

In addition, as of June 30, 2018, RMB400,000,000 of fund raised through trust bore interest at 9.0% per annum and the securities will mature in April 2019.

(c) As of June 30, 2018, RMB879,216,000 of long-term borrowings were secured by construction in progress and land use rights amounting to approximately RMB3,579,363,000. The interest rate of these borrowings was 4.655%-4.900% per annum.

20. Borrowings (continued)

Notes (continued):

(d) During the six months ended June 30, 2018, RMB150,000,000 pledged borrowings were received from Bank of Ningbo and US$58,064,000 of short-term borrowings and RMB150,000,000 were repaid by the Group.

As of June 30, 2018, the secured short-term borrowings were collateralized by a pledge of bank deposits of US$40,000,000 (equivalent to approximately RMB264,664,000) and RMB150,000,000, which were recorded as "restricted cash" in the consolidated balance sheets. The interest rate of these borrowings was 4.785%-5.220% per annum.

(e) The Group entered into a three-year bank loan facility agreement on July 26, 2017. The available commitment is US$1,000,000,000 (equivalent to approximately RMB6,534,200,000) including US$500,000,000 (equivalent to approximately RMB3,267,100,000) term loan and US$500,000,000 (equivalent to approximately RMB3,267,100,000) revolving loan. As of December 31, 2017, the total loan amount was US$500,000,000 (equivalent to approximately RMB3,267,100,000) and should be repaid by the Group on July 25, 2020. On March 28, 2018, the Group drew down US$400,000,000 (equivalent to approximately RMB2,646,640,000) revolving loan at LIBOR plus 2.15% per annum and repaid on July 27, 2018.

As of December 31, 2017, the Group had RMB490,000,000 borrowings from Bank of Beijing with interest rate 4.750% per annum. During the six months ended June 30, 2018, the Group repaid RMB10,000,000 to Bank of Beijing. As of June 30, 2018, RMB20,000,000 of these outstanding borrowings should be repaid by the Group within the next twelve months and RMB460,000,000 should be repaid by the Group in March 2022.

As of December 31, 2017, the Group has RMB140,000,000 borrowings from China Resources Bank of Zhuhai Co., Ltd. with interest rate 5.8725% per annum. On April 13, 2018, the Group drew down RMB310,000,000 from China Resources Bank of Zhuhai Co., Ltd. with an interest rate of 6.960% per annum. As of June 30, 2018, RMB450,000,000 outstanding borrowings should be repaid by the Group in 2018 and 2019.

For the six months ended June 30, 2018, the interest rate of the interest-bearing liabilities ranges from 3.53% to 9.00% per annum.

21. Deferred income tax

The amount of offsetting deferred income tax assets and liabilities is RMB93,732,000 as of June 30, 2018 (June 30, 2017: RMB54,094,000).

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

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	721,389	488,054
Credited to the consolidated income statements	319,271	13,149
At the end of the period	1,040,660	501,203

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

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At the beginning of the period	(1,148,464)	(500,040)
Credited/(debited) to the consolidated income statements	14,798	(306,092)
Acquisition of a subsidiary	(3,550)	—
At the end of the period	(1,137,216)	(806,132)

As of December 31, 2017 and June 30, 2018, the Group did not recognize deferred income tax assets of RMB521,499,000 and RMB519,072,000, in respect of deductible temporary differences and cumulative losses amounting to RMB2,330,552,000 and RMB2,354,332,000, respectively, that can be carried forward against future taxable income.

22. Convertible redeemable preferred shares

Since the date of incorporation, the Company has completed several rounds of financing by issuing Preferred Shares. The movement of the Preferred Shares is set out as below:

	RMB'000
(Unaudited)	
At January 1, 2018	**161,451,203**
Changes in fair value	**(12,461,345)**
Currency translation differences	**1,574,036**
At June 30, 2018	**150,563,894**
At January 1, 2017	115,802,177
Changes in fair value	24,468,644
Currency translation differences	(3,060,461)
At June 30, 2017	137,210,360

The Group has used the discounted cash flow method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Preferred Shares as of the dates of issuance and as of June 30, 2017. Key valuation assumptions used to determine the fair value of Preferred Shares as of June 30, 2017 include discount rate (post-tax) of 17.00%, risk-free interest rate ranging from 2.03% to 2.19%, DLOM of 10.00% and volatility ranging from 33.40% to 36.71%.

On July 9, 2018, the Company has successfully listed on the Main Board of HKSE and made an offering of 2,179,585,000 class B ordinary shares (excluding any class B ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$17.00 per share. The Company used this offering price to determine the underlying Preferred Shares value of the Company as of June 30, 2018 accordingly. All Preferred Shares were converted into class B ordinary shares upon completion of the initial public offering on July 9, 2018.

Changes in fair value of Preferred Shares were recorded in "fair value changes of convertible redeemable preferred shares" in the interim condensed consolidated income statements. Management considered that fair value changes in the Preferred Shares that are attributable to changes of credit risk of this liability are not significant.

(Expressed in RMB unless otherwise indicated)

23. Share-based payments

Pre-IPO ESOP

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 251,307,455 (which were adjusted to 2,513,074,550 shares after the Share Subdivision on June 17, 2018) as of December 31, 2017 and June 30, 2018, respectively. The Pre-IPO ESOP permits the awards of options and RSUs.

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, 2018 (Note (a))	189,755,311	1.05
Granted during the period (Note (a))	42,500,561	1.98
Forfeited during the period (Note (a))	(1,888,180)	3.33
Effect of Share Subdivision (Note (b))	2,073,309,228	
Outstanding as of June 30, 2018 (unaudited)	2,303,676,920	0.12
Exercisable as of June 30, 2018 (unaudited)	1,388,226,909	0.05

23. Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2017 (Note (a))	162,831,760	0.88
Granted during the period (Note (a))	6,944,800	2.91
Forfeited during the period (Note (a))	(2,905,243)	2.98
Effect of Share Subdivision (Note (b))	1,501,841,853	
Outstanding as of June 30, 2017 (unaudited)	1,668,713,170	0.09
Exercisable as of June 30, 2017 (unaudited)	1,297,862,658	0.03

Notes:

(a) The numbers of shares were presented as before the effect of the Share Subdivision.

(b) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

The weighted-average remaining contract life for outstanding share options was 5.17 years and 5.22 years as of December 31, 2017 and June 30, 2018, respectively.

Fair value of share options

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.

(Expressed in RMB unless otherwise indicated)

23. Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

Fair value of share options (continued)

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

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Fair value per share (Note (a))	**US$22.99–24.48**	US$13.93–17.70
Exercise price (Note (a))	**US$1.02–3.44**	US$3.44
Risk-free interest rate	**3.12%–3.68%**	2.95%–3.22%
Dividend yield	**—**	—
Expected volatility	**41.57%–43.21%**	43.38%–44.19%
Expected terms	**10 years**	10 years

Note:

(a) The fair value per share and the exercise price presented was before the effect of the Share Subdivision.

The weighted-average fair value of granted shares was US$13.23 (which was adjusted to US$1.32 after the Share Subdivision on June 17, 2018) and US$21.80 (which was adjusted to US$2.18 after the Share Subdivision on June 17, 2018) per share for the six months ended June 30, 2017 and 2018, respectively.

23. Share-based payments (continued)

Pre-IPO ESOP (continued)

RSUs granted to employees

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

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2018 (Note (a))	**24,492,747**	**2.94**
Forfeited during the period (Note (a))	**(3,776,549)**	**6.36**
Effect of Share Subdivision (Note (b))	**186,445,782**	
Outstanding as of June 30 , 2018 (unaudited)	**207,161,980**	**0.23**
Vested as of June 30, 2018 (unaudited)	**235,327,470**	**0.28**
Outstanding as of January 1, 2017 (Note (a))	41,094,870	4.84
Granted during the period (Note (a))	500,000	14.73
Forfeited during the period (Note (a))	(5,862,123)	3.87
Effect of Share Subdivision (Note (b))	321,594,723	
Outstanding as of June 30, 2017 (unaudited)	357,327,470	0.51
Vested as of June 30, 2017 (unaudited)	257,727,470	0.31

Notes:

(a) The numbers of shares were presented as before the effect of the Share Subdivision.

(b) It represented the effects of adjustments made to the numbers of shares as a result of the Share Subdivision.

The weighted-average remaining contract life for outstanding RSUs was 5.48 years and 4.73 years as of December 31, 2017 and June 30, 2018, respectively.

23. Share-based payments (continued)

Pre-IPO ESOP (continued)

RSUs granted to employees (continued)

The fair value of each RSU at the grant dates were determined by reference to the fair value of the ordinary shares of the Company that issued to its shareholders.

The total expenses recognized in the consolidated income statements for Pre-IPO ESOP granted to the Group's employees are RMB265,948,000 and RMB1,042,443,000 for the six months ended June 30, 2017 and 2018, respectively.

Share options granted to Lei Jun

On April 2, 2018, the Company issued 63,959,619 Class B ordinary shares (or 639,596,190 Class B ordinary shares following the Share Subdivision) at par value to Smart Mobile Holdings Limited, an entity whose interest is held on trust for the benefit of Lei Jun and his family members, to reward Lei Jun for his contribution to the Company. Accordingly, RMB9,827,157,000 was recognized as share-based compensation expenses on April 2, 2018 by the Group.

On June 17, 2018, Lei Jun was granted 42,070,000 share options in Xiaomi Finance 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. Accordingly, RMB102,608,000 was recognized as share-based compensation expenses on June 17, 2018 by the Group.

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 investment date (the "Lockup Period"). Upon the end of the Lockup Period, the holders would become the equity holders of the Employee Fund. Thereafter when the employees decide to resign after Lockup Period, the employees can demand the Company to buy back the shares at fair value or continue to hold the shares. Accordingly, the Group granted compound financial instruments to its employees and accounted for it as equity-settled share-based payments and cash-settled share-based payments.

The total expenses recognized in the consolidated income statements for the Employee Fund granted to the Group's employees are RMB52,437,000 and RMB43,351,000 for the six months ended June 30, 2017 and 2018, respectively.

24. Other non-current liabilities

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Investment from investors (Note (a))	**2,631,000**	—
Others	**34,697**	35,211
	2,665,697	35,211

Note:

(a) Two subsidiaries of the Group together with other limited partners newly launched a RMB fund named Hubei Yangtze River Industry Investment Fund Partner (Limited Partnership) (湖北小米長江產業基金合夥企業(有限合夥)) (the "Hubei Fund") in Wuhan, Hubei province in mainland China in 2017. During the six months ended June 30, 2018, the Hubei Fund raised approximately RMB2,631,000,000 from third party investors for investment activities. The size of the Hubei Fund is RMB12,000,000,000. The Group controls the Hubei Fund as the Group is exposed to, and has rights to, variable returns from its involvement with the Hubei Fund and has the ability to affect those returns through its power over the Hubei Fund. Hubei Fund has limited operation during the current period. The amount raised from limited partners is classified as financial liability in the consolidated financial statements.

25. Trade payables

Trade payables primarily include payables for inventories and royalty fees. As of December 31, 2017 and June 30, 2018, the carrying amounts of trade payables were primarily denominated in RMB.

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

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Up to 3 months	**43,334,309**	32,859,302
3 to 6 months	**1,428,885**	936,690
6 months to 1 year	**162,458**	180,060
1 to 2 years	**39,317**	22,525
Over 2 years	**1,318**	4,754
	44,966,287	34,003,331

26. Other payables and accruals

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Amounts collected for third parties	**1,477,015**	1,056,228
Payroll and welfare payables	**541,677**	694,887
Deposits payable	**731,970**	678,472
Employee Fund (Note 23)	**510,481**	469,930
Accrued expenses	**264,202**	373,034
Payables for construction cost	**309,827**	241,881
Payables for investments	**46,213**	151,712
Loans from related parties	**—**	51,336
Other taxes payables	**69,030**	59,431
Others	**674,529**	447,068
	4,624,944	4,223,979

27. Contingencies

The Group did not have any material contingent liabilities as of December 31, 2017 and June 30, 2018.

28. 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, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Property and equipment	1,392,170	1,486,029
Intangible assets	87,040	112,888
Long-term investments	98,728	198,788
	1,577,938	1,797,705

(b) Operating lease commitments

The Group leases office under non-cancellable operating lease agreements. The lease terms are between 1 to 5 years, and majority of lease agreements are renewable at the end of the lease at market rate.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
Not later than 1 year	352,216	258,230
Later than 1 year and not later than 5 years	308,518	280,613
	660,734	538,843

29. 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,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(i) Sales of goods and services		
Associates of the Group	410,932	216,286
Associates of Lei Jun	13,775	29,680
	424,707	245,966
(ii) Purchases of goods and services		
Associates of the Group	8,203,327	4,830,695
Associates of Lei Jun	670	310
	8,203,997	4,831,005

29. Related party transactions (continued)

(b) Year/period end balances with related parties

	As of June 30, 2018 RMB'000 (Unaudited)	As of December 31, 2017 RMB'000 (Audited)
(i) Trade receivables from related parties		
Associates of the Group	**229,706**	162,901
Associates of Lei Jun	**14,601**	25,715
	244,307	188,616
(ii) Trade payables to related parties		
Associates of the Group	**2,492,113**	3,204,190
Associates of Lei Jun	**6,449**	4,572
	2,498,562	3,208,762
(iii) Other receivables from related parties		
Associates of the Group	**352,366**	177,831
Controlled by a director	**—**	4,000
	352,366	181,831
(iv) Other payables to related parties		
Associates of the Group	**381,176**	416,348
Associates of Lei Jun	**7,450**	8,202
	388,626	424,550
(v) Prepayments		
Associates of the Group	**70,112**	67,336

All the balances with related parties above were unsecured and repayable within one year.

29. Related party transactions (continued)

(c) Loans to related parties

	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Loans to associates:		
At the beginning of the period	**62,143**	74,329
Loans advanced	**50,000**	—
Loans repaid	**(53,874)**	(11,000)
Interest charged	**1,448**	1,766
Interest received	**(1,195)**	(507)
Currency translation differences	**—**	(526)
At the end of the period	**58,522**	64,062

(d) Loans from related parties

	Six months ended June 30, 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Loans from associates:		
At the beginning of the period	**51,336**	50,873
Loans received	**—**	—
Loans repaid	**(50,958)**	—
Interest charged	**146**	241
Interest paid	**(855)**	—
Currency translation differences	**331**	—
At the end of the period	**—**	51,114

29. Related party transactions (continued)

(e) Key management compensation

	Six months ended June 30,	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries	6,012	3,623
Discretionary bonuses	—	960
Share-based compensation (Note)	10,319,403	158,591
Employer's contribution to pension schedule	390	348
	10,325,805	163,522

Note: For the six months ended June 30, 2018, the share-based compensation comprises one-off share-based compensation amounting to approximately RMB9,929,765,000, the details of which are presented in Note 23.

30. Events after the reporting period

On July 9, 2018, the Company successfully completed its initial public offering of 2,179,585,000 offer shares (comprising 1,434,440,000 new class B ordinary shares) at a price at HK$17.00 per share, and was listed on the Main Board of HKSE. Additionally, the Company issued and allotted 201,486,000 class B ordinary shares on July 20, 2018 pursuant to the full exercise of the over-allotment option as disclosed in the announcement of the Company dated July 18, 2018. The gross proceeds received by the Company was approximately HK$27,810,742,000 (equivalent to approximately RMB23,525,107,000).

On July 9, 2018, all Preferred Shares were converted into class B ordinary shares upon completion of the initial public offering.

On July 20, 2018, the Hubei Fund completed its registration with relevant government authority. Accordingly, funds of RMB3,235,211,000 that were recorded as restricted cash as of June 30, 2018 were transferred to cash and cash equivalents upon the completion of registration.

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 or Association"	the articles of association of the Company adopted on June 17, 2018 with effect from Listing, as amended from time to time
"Board"	our Board of Directors
"BVI"	the British Virgin Islands
"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$0.000025 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$0.000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings
"Company", "our Company", "the Company", or "We"	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
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Consolidated Affiliated Entities"	the entities we control through Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries (each a "Consolidated Affiliated Entity")

"Contractual Arrangements"	the series of contractual arrangements entered into by and among WFOEs, the Consolidated Affiliated Entities and the Registered Shareholders, details of which are described in the section headed "Contractual Arrangements" of the Prospectus
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an 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
"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 Class B 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

DEFINITIONS

"Memorandum of Association"	the memorandum of association of the Company adopted on June 17, 2018, as amended from time to time
"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"	Xiaomi Inc. (小米科技有限責任公司), Beijing Xiaomi Electronic Software Co., Ltd. (北京小米電子軟件技術有限公司), Beijing Wali Culture Communication Co., Ltd. (北京瓦力文化傳播有限公司), Beijing Duokan Technology Co., Ltd. (北京多看科技有限公司), Beijing Wali Internet Technologies Co., Ltd. (北京瓦力網絡科技有限公司), Xiaomi Pictures Co., Ltd. (小米影業有限責任公司), Rigo Design (Beijing) Co., Ltd. (美卓軟件設計(北京)有限公司) and Youpin Information Technology Co., Ltd. (有品信息科技有限公司)
"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
"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
"Registered Shareholders"	the registered shareholders of the Onshore Holdcos
"Reporting Period"	the six months ended June 30, 2018

"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
"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(s)"	the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires
"Share Award Scheme"	the share award scheme adopted by the Company on June 17, 2018
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"weighted voting rights"	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

"WFOEs", each a "WFOE"	Xiaomi Communications Co., Ltd. (小米通訊技術有限公司), Beijing Xiaomi Payment Technology Co., Ltd. (北京小米支付技術有限公司), Beijing Wenmi Culture Co., Ltd. (北京文米文化有限公司), Beijing Xiaomi Digital Technology Co. Ltd. (北京小米數碼科技有限公司), Wali Information Technologies (Beijing) Ltd. (瓦力信息技術(北京)有限公司), Beijing Xiaomi Mobile Software Co., Ltd. (北京小米移動軟件有限公司) and Xiaomi Youpin Technology Co. Ltd. (小米有品科技有限公司)
"WVR Beneficiary(ies)"	has the meaning ascribed to it in the Listing Rules and unless the context otherwise requires, refers to Lei Jun and Lin Bin, being the holders of Class A Shares
"WVR structure"	has the meaning ascribed to it in the Listing Rules
"Xiaomi Finance"	Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands and our direct 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, as amended from time to time
"%"	per cent