Stock Code： 1810

XIAOMI CORPORATION

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

2021 ANNUAL REPORT

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

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

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

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We relentlessly

build amazing products

with honest prices

to let everyone in the world

enjoy a better life through

innovative technology


100''

CORPORATE INFORMATION

Board of Directors

Executive Directors

Lei Jun（雷軍）*(Chairman of the Board)*
Lin Bin（林斌）*(Vice Chairman of the Board)*
Chew Shou Zi （周受資）(resigned from the Board with effect from March 24, 2021)
Liu De (劉德) (appointed to the Board with effect from March 24, 2021)

Non-Executive Director

Liu Qin （劉芹）

Independent Non-Executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

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

Joint Company Secretaries

Lin Steve （林冠男）(resigned with effect from February 26, 2021)
Chan Wing Ki （陳穎琪）(appointed with effect from February 26, 2021 and resigned with effect from April 30, 2021)
Liu Hao （劉灝）(appointed with effect from March 25, 2022)
So Ka Man （蘇嘉敏）

Authorized Representatives

Lin Bin （林斌）
So Ka Man （蘇嘉敏）

Auditor

PricewaterhouseCoopers
Certified Public Accountants and Registered Public Interest Entity Auditor
22/F, Prince's Building, Central, Hong Kong

Registered Office

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

Head Office and Principal Place of Business in Mainland China

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

Principal Place of Business in Hong Kong

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

Hong Kong Legal Advisor

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

Compliance Advisor

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

Hong Kong Share Registrar

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

Principal Share Registrar and Transfer Office

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

Principal Banker

China Merchants Bank, Beijing Branch, Shouti Sub-branch

Stock Code

1810

Company Website

www.mi.com

FIVE-YEAR FINANCIAL SUMMARY

Condensed consolidated statements of comprehensive income

	Year ended December 31,				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**328,309,145**	245,865,633	205,838,682	174,915,425	114,624,742
Gross profit	**58,260,941**	36,751,862	28,554,033	22,191,939	15,154,205
Operating profit	**26,028,664**	24,034,729	11,760,217	1,196,472	12,215,467
Profit/(loss) before income tax	**24,417,033**	21,633,432	12,162,646	13,927,124	(41,829,352)
Profit/(loss) for the year	**19,283,235**	20,312,710	10,102,950	13,477,747	(43,889,115)
Profit/(loss) attributable to owners of the Company	**19,339,321**	20,355,504	10,044,164	13,553,886	(43,826,016)
Total comprehensive income/(loss) for the year	**17,879,021**	17,949,889	10,543,383	11,921,632	(35,994,749)
Total comprehensive income/(loss) attributable to owners of the Company	**17,940,990**	17,986,452	10,472,914	11,989,243	(35,922,124)
Non-IFRS Measure: Adjusted net profit	**22,039,474**	13,006,363	11,532,296	8,554,548	5,361,876

Condensed consolidated balance sheets

	As of December 31,				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets					
Non-current assets	**107,040,469**	77,396,988	46,090,121	39,215,389	28,731,300
Current assets	**185,851,401**	176,282,835	137,539,086	106,012,561	61,138,461
Total assets	**292,891,870**	253,679,823	183,629,207	145,227,950	89,869,761
Equity and liabilities					
Equity attributable to owners of the Company	**137,212,906**	123,691,696	81,330,574	71,322,985	(127,272,361)
Non-controlling interests	**219,590**	321,819	327,102	(72,856)	61,670
Total equity	**137,432,496**	124,013,515	81,657,676	71,250,129	(127,210,691)
Non-current liabilities	**39,731,903**	21,739,380	9,790,826	12,037,663	169,947,781
Current liabilities	**115,727,471**	107,926,928	92,180,705	61,940,158	47,132,671
Total liabilities	**155,459,374**	129,666,308	101,971,531	73,977,821	217,080,452
Total equity and liabilities	**292,891,870**	253,679,823	183,629,207	145,227,950	89,869,761

xiaomi

Year ended December 31, 2021

Revenue
328.3
RMB billion

Revenue growth
33.5%
year-on-year

Adjusted net profit[1]
22.0
RMB billion

Adjusted net profit[1] growth
69.5%
year-on-year

Smartphone shipments
190.3
million units

Connected IoT devices[2]
434.0
million units

MIUI MAU[3]
508.9
million

Overseas revenue
49.8%
of total revenue

Notes:

(1) Non-IFRS measure

(2) Connected IoT devices as of December 31, 2021, excluding smartphones, tablets, and laptops

(3) MIUI MAU in December 2021

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended December 31, 2021 to the shareholders.

Business Review and Outlook

OVERALL PERFORMANCE

SMARTPHONES

IoT AND LIFESTYLE PRODUCTS

INTERNET SERVICES

OVERSEAS MARKETS

STRATEGY UPDATES

1. Overall performance

In 2021, despite the global supply shortage of key components and the continued impact of the COVID-19 pandemic, we remained focused on executing our business strategies. Our revenue and profit both achieved outstanding growth for the year, and annual revenue of each of our business segments reached record highs. In 2021, our total revenue amounted to RMB328.3 billion, an increase of 33.5% year-over-year; adjusted net profit was RMB22.0 billion, an increase of 69.5% year-over-year.

We continued to execute our core "Smartphone × AIoT" strategy. In 2021, our global smartphone shipments grew 30.0% year-over-year to reach 190.3 million units, a record high. According to Canalys, in 2021, our smartphone shipments ranked No. 3 globally with record-high market share of 14.1%, and we achieved the highest year-over-year shipment growth globally among the top five smartphone vendors. Global monthly active users ("**MAU**") of MIUI reached 508.9 million in December 2021, increasing 28.4% year-over-year, and we added 112.5 million MAU of MIUI globally in 2021. As of December 31, 2021, the number of connected IoT devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 434.0 million, up 33.6% year-over-year.

To drive innovation and technology advancement, we continued to increase our investments in research and development. In 2021, our research and development expenses reached RMB13.2 billion, an increase of 42.3% year-over-year. Looking ahead, technology innovation will continue to be our foundation, and we plan to invest more than RMB100 billion in research and development over the next five years.

Through our unwavering commitment to premiumization, we have been prioritizing user experience and improving our competitiveness in the premium smartphone segment. In 2021, our global shipments of smartphones with retail prices at or above RMB3,000 in mainland China and EUR300, or equivalent, in overseas markets exceeded 24 million units, far above the approximately 10 million units we shipped in 2020. Premium smartphone shipments as a percentage of our total shipments increased from approximately 7% in 2020 to approximately 13% in 2021.

According to Canalys, in 2021, we ranked No. 3 in smartphone shipments in mainland China, and our market share increased to a record high 15.2% from 12.1% in 2020. In December 2021, the MAU of MIUI in mainland China grew 17.0% year-over-year to 129.8 million, an increase of 18.9 million users in 2021. We continued to reinforce our leadership in the online channel. According to third-party data, our smartphone market share in mainland China through the online channel increased from 23.4% in 2020 to 33.6% in 2021. At the same time, we continued to expand our offline channel coverage in mainland China, and the number of our offline retail stores exceeded 10,200 as of December 31, 2021.

We continued to advance our overseas strategy. In 2021, our revenue from overseas markets reached RMB163.6 billion, representing an increase of 33.7% year-over-year and accounting for 49.8% of our total revenue. According to Canalys, our market share of smartphone shipments in 2021 ranked No. 1 in 14 countries and regions and among the top five in 62 countries and regions globally, including ranking No. 2 in Europe. In 2021, we have improved our regional smartphone market shares in all major regions including Europe, Latin America, the Middle East, Africa and Asia Pacific.

2. Smartphones

Despite the global supply shortage of key components, our smartphone business maintained solid growth momentum, highlighted by increases in both shipments and ASP in 2021. In 2021, our smartphone revenue reached RMB208.9 billion, representing an increase of 37.2% year-over-year, and our global smartphone shipments amounted to 190.3 million units, an increase of 30.0% year-over-year. According to Canalys, our global smartphone shipments in 2021 ranked No. 3 with a market share of 14.1%.

CHAIRMAN'S STATEMENT

We continued to execute our dual-brand strategy. Under the Xiaomi brand, we remained focused on enriching our smartphone portfolio to satisfy the needs of different user segments. In the first quarter of 2021, we unveiled *Xiaomi 10S, Xiaomi 11 Lite, Xiaomi 11 Pro, Xiaomi 11 Ultra* and *Xiaomi MIX FOLD*. At the time of launch, our *Xiaomi 11 Ultra* achieved a DXOMARK score of 143 for overall camera performance, ranking 1st globally. Our first foldable smartphone, *Xiaomi MIX FOLD*, came equipped with Xiaomi's first proprietary *Surge C1* ISP and was also the world's first smartphone to feature a liquid lens. Following the widespread popularity of these products, in August 2021, we unveiled our first camera-under-panel full-screen display smartphone, *Xiaomi MIX 4*. In September 2021, we introduced the *Xiaomi Civi* series, targeting chic and fashion-conscious users with a distinctive, stylish and lightweight design. In December 2021, we launched the *Xiaomi 12* series[1] in mainland China. The launch of *Xiaomi 12* and *Xiaomi 12 Pro* was the first time we introduced dual models with different screen sizes, and both came equipped with Qualcomm's Snapdragon 8 Gen 1 Mobile Platform processor. *Xiaomi 12 Pro* is also equipped with our proprietary charging chip, *Surge P1,* and the CyberFocus algorithm. Given its exceptional performance and user experience, *Xiaomi 12 Pro* became the best-seller among Android smartphones priced at or above RMB4,000 on JD.com and Tmall.com in January 2022 following its launch. At the same time, our offline channels also played a more prominent role in premium smartphone shipment growth. In the first month after its launch, shipments of *Xiaomi 12* series in mainland China through offline channels accounted for over 50% of its total shipments.

Under the Redmi brand, we continued to bring cutting-edge technologies to the mass market and offer the ultimate user experience across highly accessible products. Following the successful launches of the *Redmi K40* series and *Redmi Note 10* series in the first half of 2021, we launched the highly competitive *Redmi Note 11* series in October 2021. In February 2022, we unveiled *Redmi K50G* and *Redmi K50G Mercedes-AMG Petronas Formula One Team Edition* to target gaming enthusiasts. Equipped with the Qualcomm Snapdragon 8 Gen 1 Mobile Platform processor, these models offer users a truly satisfying gaming experience in terms of performance, heat dissipation, fast charging, display quality, and sound and vibration effects. In March 2022, we also launched *Redmi K50* and *Redmi K50 Pro. Redmi K50 Pro* is equipped with MediaTek's Dimensity 9000 processor using TSMC's advanced 4nm technology, our proprietary charging chip *Surge P1* and a 100MP optical image stabilization ("**OIS**") camera. All the above bring premium configurations to the mass market at extremely competitive prices.

After thoroughly reviewing our users' core requirements for smartphone systems, we emphasized on improving user experience across multiple dimensions including system smoothness, stability, and privacy protection. In December 2021, we launched MIUI 13, which substantially improves responsiveness and stability across system applications and third-party apps, which is accomplished by optimizing memory management and background processing efficiency while enhancing data calculation and storage access speeds. In the third-party "System Smoothness

1 *Xiaomi 12 Pro, Xiaomi 12, Xiaomi 12X*

Ranking among New Android Smartphone Models Launched in December" for mainland China[2], *Xiaomi 12 Pro* running MIUI 13 ranked No. 1. In addition, newly added privacy protection features within MIUI 13 offer even stronger safeguards for user information security and privacy.

3. IoT and lifestyle products

In 2021, our IoT and lifestyle products segment maintained robust growth with revenue increasing 26.1% year-over-year to RMB85.0 billion.

In 2021, global shipments of our smart TV grew to 12.3 million units against an overall decline in the global TV market. As we continue to execute our premium strategy, ASP of our smart TVs increased significantly, driving our smart TV revenue to grow more than 25% year-over-year in 2021. According to All View Cloud ("**AVC**"), our smart TV shipments ranked No. 1 in mainland China for the third consecutive year and ranked top five globally. In 2021, we further expanded our premium and ultra-large screen TV portfolio, including *Xiaomi TV 6 Ultra Edition, Xiaomi TV Master 77" OLED, Xiaomi TV 6 OLED,* and *Redmi MAX 86"* super-size TV. In March 2022, we launched our first 100-inch ultra-large screen TV, *Redmi MAX 100*", all of which comprehensively upgraded the audio-visual entertainment experience and display effects.

In 2021, key AIoT categories such as tablets and laptops, smart large home appliances, and wearables also continued to grow steadily. First, our *Xiaomi Pad 5* series received widespread popularity; its shipments ranking in mainland China rose to No. 4 in the fourth quarter of 2021, according to Canalys. Our smart large home appliance category, which comprises air conditioners, refrigerators and washing machines, also delivered strong growth with revenue increasing over 60% year-over-year in 2021. Within this category, shipments of our smart air conditioner exceeded 2 million units in 2021, representing an increase of over 70% year-over-year, and our smart air conditioner with ventilation ranked first on JD.com and Tmall.com for 9 consecutive months[3]. At the same time, we continued to maintain our leading position in wearable products. According to Canalys, our wearable band shipments ranked No. 2 globally in 2021. According to IDC Quarterly Wearable Device Tracker (2021Q4), our TWS earbud shipments ranked No. 3 globally and No. 2 in mainland China in 2021. In addition, in August 2021, we launched the high-fidelity smart speaker *Xiaomi Sound*, which delivers best-in-class sound quality with its embedded Harman audio system and offers enhanced smartphone connectivity using UWB technology.

Despite the challenges in maritime shipping logistics overseas during the second half of the year as a result of the COVID-19 pandemic, our overseas IoT business maintained its strong growth momentum and reached a new record high in 2021. Looking forward, we will continue to tap into the tremendous growth potential in overseas markets, seize opportunities to expand our overseas IoT business and promote its long-term development.

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2 Based on data provided by Ludashi, a Hong Kong-listed developer of system benchmarking tools

3 Between April and December 2021, in terms of year-to-date cumulative sales volume in the air conditioner with ventilation category, excluding Tmall Youpin and JD appliance channel

CHAIRMAN'S STATEMENT

4. Internet services

In 2021, our internet services business maintained solid growth despite increased industry challenges. In 2021, our internet services revenue reached RMB28.2 billion, an increase of 18.8% year-over-year.

At the same time, our overseas internet business grew rapidly. Overseas internet services revenue reached RMB5.0 billion in 2021, and accounted for 17.8% of overall internet service revenue. In the fourth quarter of 2021, overseas internet services revenue reached RMB1.6 billion, increasing 79.5% year-over-year, and accounted for 21.5% of total internet services revenue.

Our global internet user base continued to expand. In December 2021, the global MAU of MIUI increased 28.4% year-over-year to 508.9 million, while the MAU of MIUI in mainland China grew 17.0% year-over-year to 129.8 million. We added 112.5 million MAU of MIUI globally in 2021, including 18.9 million MAU in mainland China. Meanwhile, our TV internet user base also maintained solid growth. In December 2021, MAU of our smart TV[4] grew more than 29% year-over-year, and the number of TV paid subscribers increased 14.5% year-over-year to 4.9 million.

In 2021, our advertising revenue reached RMB18.1 billion, representing an increase of 42.3% year-over-year, primarily attributable to our increased smartphones shipments, expanding user base, higher proportion of premium smartphone users, and stronger monetization capabilities.

In 2021, our gaming revenue reached RMB4.0 billion, a slight decline of 5.7% year-over-year, primarily affected by the adjustment of commercial terms that began during the third quarter of 2020, which impacted the year-over-year growth in the first half of 2021, while we returned to year-on-year growth in the second half of 2021.

5. Overseas markets

In 2021, we achieved remarkable results across our global markets. Revenue from overseas markets reached RMB163.6 billion in 2021, increasing 33.7% year-over-year and accounting for 49.8% of our total revenue. According to Canalys, in 2021, our market share of smartphone shipments in 2021 ranked No. 1 in 14 countries and regions and among the top five in 62 countries and regions globally.

We continued to build localized operations and strengthen our presence in overseas markets. According to Canalys, our smartphone shipments in Europe ranked No. 2 in 2021 with 22.5% market share. At the same time, we continued our solid growth trajectory in emerging markets. In the Middle East, our smartphone shipments ranked No. 2 with 16.6% market share. In Latin America and Africa, our smartphone shipments in 2021 grew 94.0% and 65.8%

4 including *Xiaomi Box* and *Xiaomi TV Stick*

year-on-year, respectively, and we were the No. 3 smartphone vendor in both regions. In 2021, we have improved our regional smartphone market shares in all major regions including Europe, Latin America, the Middle East, Africa and Asia Pacific.

Our overseas shipments of premium smartphones recorded rapid growth. In 2021, our overseas shipments of smartphones with retail prices at or above EUR300 increased over 160% year-over-year; its share of total overseas shipments increased approximately 6 percentage points compared with 2020. According to Canalys, we ranked No. 3 in terms of overseas shipments of premium smartphones with retail prices at or above USD350 in 2021.

In 2021, we continued to strengthen our carrier channel overseas. According to Canalys, our carrier channel market share in Europe increased from 7.9% in 2020 to 16.8% in 2021, and our carrier channel market share in Latin America increased from 4.6% in 2020 to 12.3% in 2021. Overall, we shipped more than 25 million smartphones through carrier channels in overseas markets[5] in 2021, an increase of over 120% year-over-year. According to Canalys, our smartphone market share through carrier channels ranked top 3 in 34 overseas markets.

6. Strategy updates

Smartphone × AIoT

We remain focused on executing our "Smartphone × AIoT" strategy. As of December 31, 2021, the number of connected devices (excluding smartphones, tablets and laptops) on our AIoT platform reached 434.0 million, an increase of 33.6% year-over-year; the number of users with five or more devices connected to our AIoT platform (excluding smartphones, tablets and laptops) reached 8.8 million, representing a year-over-year increase of 40.4%. In December 2021, the MAU of our AI Assistant ("小愛同學") reached 107.0 million, up 23.3% year-over-year, and the MAU of our Mi Home App grew to 63.9 million, representing a year-over-year increase of 42.0%.

To build a leading smart ecosystem, we continued to enhance the interconnectivity experience between our smartphones and AIoT products. Simultaneous with our MIUI 13 launch in December 2021, we unveiled Xiaomi Share Center, which enables users to seamlessly transfer music, video and other content across devices by simply dragging and dropping icons in a new intuitive interface. In addition, we launched MIUI Family, which provides unique functions and services for a wide range of personal, home, and enterprise usage scenarios, further enhancing interconnectivity among different smart devices including smartphones, tablets, smart watches, smart TVs, touch-screen speakers, and more.

In November 2021, with respect to organizational structure, we combined the Software and Experience Department responsible for the development of MIUI, the System Software Department of Smartphone Department, and the IoT

5 excluding India, Sri Lanka, Nepal and Bangladesh

CHAIRMAN'S STATEMENT

Platform Department into a single department under the Smartphone Department. This will further strengthen the synergies between smartphone hardware and software and improve user experience.

New Retail

In 2021, we continued to solidify our offline channel in mainland China, and we achieved our target of 10,000 offline retail stores ahead of schedule. Moving forward, we will further penetrate the offline channel, expand our rural footprint, and strengthen and integrate our sales and customer service capabilities in 2022. In addition, we aim to improve the operating efficiency of offline stores through measures such as end-to-end digitization, training of store staff, cross-selling IoT products, and closer collaboration with carriers.

Research and development investment

To drive innovation and technology advancement, we continued to increase our investments in research and development. In 2021, our research and development expenses reached RMB13.2 billion, an increase of 42.3% year-over-year. As part of our continued efforts to introduce cutting-edge technology, in 2021 we launched our first proprietary Image Signal Processor ("**ISP**"), the *Surge C1*, and our first proprietary charging chip, the *Surge P1*, which were equipped in our *Xiaomi MIX FOLD* and *Xiaomi 12 Pro* premium flagship smartphones, respectively. We introduced our first pair of smart eyewear, *Xiaomi Smart Glasses*, which is capable of functions such as displaying messages, providing navigation and taking photos. We also established our robotics laboratory and launched *CyberDog*, our first bio-inspired quadruped robot, fortifying our cutting-edge technology capabilities. In addition, we introduced the liquid lens on our *Xiaomi MIX FOLD* and our CyberFocus algorithm on our latest *Xiaomi 12* and *Xiaomi 12 Pro*, which further optimized photography experience. Looking ahead, technology innovation will continue to be our foundation, and we plan to invest more than RMB100 billion in research and development over the next five years.

We attach great importance to the development and retention of our technology talent. In 2021, we announced new share incentive awards for young engineers, technology specialists, middle and senior management, and recipients of our New 10-year Entrepreneurship Program. Additionally, we held our Xiaomi Million Dollar Technology Award for the third consecutive year, and the 2021 award was won by the *CyberDog* bio-inspired robot project team. This is a testament to our support for the pioneering spirit and technological innovation of our engineers.

Smart electric vehicles

In March 2021, we announced our plan to enter the smart electric vehicle business with an initial investment of RMB10 billion and total investment over the next 10 years estimated to be USD10 billion. Since then, our progress has been ahead of schedule. Currently, our smart electric vehicle research and development team exceeds 1,000 people. Looking ahead, we will continue to expand research and development in core areas such as autonomous driving and smart cabin. We expect mass production to officially begin in the first half of 2024.

Data Security and Privacy

We are committed to building a safe and reliable IoT ecosystem. In June 2021, we released the 2020 MIUI Security and Privacy White Paper, the third edition of this publication. In the same month, we also held our first Security and Privacy Awareness Month at the Xiaomi Science and Technology Park. In the third quarter, we implemented privacy and data security assessment on over 85,000 applications in our app store to identify potential privacy and data security risks, and have optimized, rectified and relaunched applications with such risks. In November 2021, IoTSF (Internet of Things Security Foundation) released a report recognizing Xiaomi's vulnerability disclosure policy as one of the best in the world, a strong endorsement of Xiaomi's IoT safety policy. In January 2022, *Xiaomi Mesh System AX3000* router received the British Standards Institution's Kitemark™ certification, marking the third time we have obtained this international security certification.

Corporate social responsibility (CSR)

We highly value and actively practice corporate social responsibility. By leveraging our advantages in scale and efficiency, we have been continuously driving the development of sustainable economy. In December 2021, Xiaomi was granted the Award of Excellence in ESG by the Chamber of Hong Kong Listed Companies (CHKLC) in recognition of our ESG efforts and contributions. In October 2021, Forbes named Xiaomi in its World's Best Employers List for 2021, demonstrating our employees' acknowledgement of Xiaomi's commitment to employee care, talent development and social responsibility.

We have been deepening our involvement with public welfare initiatives. To directly assist the needy, Beijing Xiaomi Foundation provided emergency disaster relief to areas including Henan and Shanxi provinces and participated in the local fight against the pandemic in Xi'an. Xiaomi Foundation Limited in Hong Kong joined the pandemic prevention and control efforts in Hong Kong and also provided natural disaster relief services in Germany, the Netherlands, Belgium, and more. In 2021, we donated a total of nearly RMB100 million to help the needy. We also actively donate to education to nurture talent and encourage innovation in science and technology. In 2020, Beijing Xiaomi Foundation launched the Xiaomi Scholarships project, which aims to support undergraduate and graduate students across 100 universities nationwide, offering financial assistance totaling RMB500 million over five years. In November 2021, the project identified the second group of 20 participating universities. In February 2022, Beijing Xiaomi Foundation launched the Xiaomi Young Scholar project, committed to funding young university faculty and researchers in science-related fields. It plans to donate RMB500 million to 100 universities over five years. In addition, in November 2021, we officially launched the Xiaomi Public Welfare Platform, an internet-based public donation platform, to help advance public welfare causes in mainland China.

CHAIRMAN'S STATEMENT

Investment

As of December 31, 2021, we had invested in more than 390 companies with an aggregate book value of RMB60.3 billion, an increase of 25.7% year-over-year. In 2021, we recorded a net gain on disposal of investments (after tax) of RMB3.3 billion. The total amount of our investments (including (i) fair value of our stakes in listed investee companies accounted for using the equity method based on the stock price on December 31, 2021 (ii) book value of our stakes in unlisted investee companies accounted for using the equity method and (iii) book value of long-term investments measured at fair value through profit or loss) reached RMB67.8 billion as of December 31, 2021. Our investments not only yield financial returns but also build business synergies that promote the development of smart manufacturing.

Our Pledge

Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology. To achieve this, as approved by our Board in May 2018, we pledged to our existing and potential users that starting from 2018, the Xiaomi Hardware Business ("**HB**"), including smartphones and IoT and lifestyle products, would have an overall net profit margin that would not exceed 5.0% per year. If the net margin exceeds 5.0%, we will return the excess above 5.0% to our users. In 2021, our hardware business was profitable with an overall net margin of less than 2.0%, fulfilling our pledge. (For the definition of hardware business net margin, please refer to Hardware Business Net Margin.)

Lei Jun
Chairman

Hong Kong
March 22, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

The following table sets forth the comparative figures for the years ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	2020
	(RMB in millions)	
Revenue	328,309.1	245,865.6
Cost of sales	(270,048.2)	(209,113.8)
Gross profit	58,260.9	36,751.8
Research and development expenses	(13,167.1)	(9,256.1)
Selling and marketing expenses	(20,980.8)	(14,539.4)
Administrative expenses	(4,738.9)	(3,746.4)
Fair value changes on investments measured at fair value through profit or loss	8,132.1	13,173.5
Share of net profits of investments accounted for using the equity method	275.0	1,380.9
Other income	826.9	642.9
Other losses, net	(2,579.5)	(372.5)
Operating profit	26,028.6	24,034.7
Finance costs, net	(1,611.6)	(2,401.3)
Profit before income tax	24,417.0	21,633.4
Income tax expenses	(5,133.8)	(1,320.7)
Profit for the year	19,283.2	20,312.7
Non-IFRS Measure: Adjusted net profit	22,039.5	13,006.4

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 33.5% to RMB328.3 billion for the Reporting Period, compared to RMB245.9 billion for the year ended December 31, 2020. The following table sets forth our revenue by line of business for the Reporting Period and the year ended December 31, 2020:

	Year ended December 31,			
	2021		2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**208,868.9**	**63.6%**	152,190.9	61.9%
IoT and lifestyle products	**84,980.1**	**25.9%**	67,410.5	27.4%
Internet services	**28,211.7**	**8.6%**	23,755.3	9.7%
Others	**6,248.4**	**1.9%**	2,508.9	1.0%
Total revenue	**328,309.1**	**100.0%**	245,865.6	100.0%

Smartphones

Revenue from our smartphones segment increased by 37.2% from RMB152.2 billion for the year ended December 31, 2020 to RMB208.9 billion for the Reporting Period, driven by growth in both sales volume and average selling price ("**ASP**"). Our smartphone shipment increased by 30.0% from 146.4 million for the year ended December 31, 2020 to 190.3 million for the Reporting Period. The ASP of our smartphones increased by 5.6% from RMB1,039.8 per unit for the year ended December 31, 2020 to RMB1,097.5 per unit for the Reporting Period. The increase in ASP was primarily due to the increase in the percentage of premium smartphone shipment to total smartphone shipment. In 2021, premium smartphone shipment as a percentage of total smartphone shipment increased from approximately 7% in 2020 to approximately 13% in 2021.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 26.1% from RMB67.4 billion for the year ended December 31, 2020 to RMB85.0 billion for the Reporting Period, primarily due to increase in sales of smart TVs, *Xiaomi Pad 5* series tablets which we introduced in August 2021, and smart air conditioners. Revenue from smart TVs and laptops increased from RMB22.5 billion for the year ended December 31, 2020 to RMB27.4 billion for the Reporting Period, mainly due to the increase in ASP of smart TVs.

Internet services

Revenue from our internet services segment increased by 18.8% from RMB23.8 billion for the year ended December 31, 2020 to RMB28.2 billion for the Reporting Period, mainly due to the increase in revenue from our advertising business. The internet services revenue in mainland China increased by 10.3% from RMB21.1 billion for the year ended December 31, 2020 to RMB23.2 billion for the Reporting Period. The internet services revenue overseas increased by 84.3% from RMB2.7 billion for the year ended December 31, 2020 to RMB5.0 billion for the Reporting Period.

Others

Other revenue increased by 149.0% from RMB2.5 billion for the year ended December 31, 2020 to RMB6.2 billion for the Reporting Period, primarily due to the sales of buildings and materials.

Cost of Sales

Our cost of sales increased by 29.1% from RMB209.1 billion for the year ended December 31, 2020 to RMB270.0 billion for the Reporting Period. The following table sets forth our cost of sales by line of business for the Reporting Period and the year ended December 31, 2020:

	Year ended December 31,			
	2021		2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	184,007.9	56.0%	138,986.9	56.5%
IoT and lifestyle products	73,888.6	22.5%	58,804.8	23.9%
Internet services	7,316.6	2.2%	9,111.0	3.7%
Others	4,835.1	1.6%	2,211.1	1.0%
Total cost of sales	270,048.2	82.3%	209,113.8	85.1%

Smartphones

Cost of sales related to our smartphones segment increased by 32.4% from RMB139.0 billion for the year ended December 31, 2020 to RMB184.0 billion for the Reporting Period, mainly due to the increase in our smartphone shipment.

MANAGEMENT DISCUSSION AND ANALYSIS

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 25.7% from RMB58.8 billion for the year ended December 31, 2020 to RMB73.9 billion for the Reporting Period, primarily due to the increased sales of our IoT and lifestyle products and increased prices of several key components.

Internet services

Cost of sales related to our internet services segment decreased by 19.7% from RMB9.1 billion for the year ended December 31, 2020 to RMB7.3 billion for the Reporting Period, primarily due to a decrease in overall consumer loan balance in our fintech business.

Others

Cost of sales in our others segment increased by 118.7% from RMB2.2 billion for the year ended December 31, 2020 to RMB4.8 billion for the Reporting Period, primarily due to the cost related to the sales of buildings and materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 58.5% from RMB36.8 billion for the year ended December 31, 2020 to RMB58.3 billion for the Reporting Period. Our gross profit margin increased from 14.9% for the year ended December 31, 2020 to 17.7% for the Reporting Period.

The gross profit margin from our smartphones segment increased from 8.7% for the year ended December 31, 2020 to 11.9% for the Reporting Period, mainly reflected the improvement of our product mix.

The gross profit margin from our IoT and lifestyle products segment increased slightly from 12.8% for the year ended December 31, 2020 to 13.1% for the Reporting Period.

The gross profit margin from our internet services segment was 74.1% for the Reporting Period, compared with 61.6% for the year ended December 31, 2020, mainly due to higher contribution from our advertising business.

Research and Development Expenses

Our research and development expenses increased by 42.3% from RMB9.3 billion for the year ended December 31, 2020 to RMB13.2 billion for the Reporting Period, primarily due to the increase in compensation for research and development personnel.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 44.3% from RMB14.5 billion for the year ended December 31, 2020 to RMB21.0 billion for the Reporting Period, primarily due to the increase in logistics expenses and promotion and advertising expenses. Logistics expenses increased by 50.9% from RMB3.5 billion for the year ended December 31, 2020 to RMB5.3 billion for the Reporting Period, primarily due to the expansion of our overseas business. Promotion and advertising expenses increased by 32.3% from RMB5.5 billion for the year ended December 31, 2020 to RMB7.2 billion for the Reporting Period, primarily due to the increased expenditure for promotion of our products and brand marketing.

Administrative Expenses

Our administrative expenses increased by 26.5% from RMB3.7 billion for the year ended December 31, 2020 to RMB4.7 billion for the Reporting Period, primarily due to the increase in compensation for administrative personnel and professional services fees.

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 38.3% from a gain of RMB13.2 billion for the year ended December 31, 2020 to a gain of RMB8.1 billion for the Reporting Period, primarily due to the lower fair value gains of listed ordinary shares investments.

Share of Net Profits of Investments Accounted for Using the Equity Method

Our share of net profits of investments accounted for using the equity method changed from net profits of RMB1,380.9 million for the year ended December 31, 2020 to net profits of RMB275.0 million for the Reporting Period, primarily due to the higher dilution gains from our certain investees in 2020, such as the dilution gain from the initial public offering of Kingsoft Cloud Holdings Limited ("**Kingsoft Cloud**", Nasdaq: KC).

Other Income

Our other income increased by 28.6% from RMB642.9 million for the year ended December 31, 2020 to RMB826.9 million for the Reporting Period, primarily due to the increase in dividend income and tax refunds partially offset by decrease in government grants.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Losses, Net

Our other net losses changed from RMB0.4 billion for the year ended December 31, 2020 to RMB2.6 billion in the Reporting Period. This is mainly due to the impairment of investments accounted for using the equity method, partially offset by gains on disposal from our investee companies for the Reporting Period.

Finance Cost, Net

Our net finance costs decreased by 32.9% from RMB2.4 billion for the year ended December 31, 2020 to RMB1.6 billion for the Reporting Period, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased from RMB1.3 billion for the year ended December 31, 2020 to RMB5.1 billion for the Reporting Period, primarily due to the increase in taxable income in the Reporting Period and more deductible expense items in the year ended December 31, 2020.

Profit for the Year

As a result of the foregoing, we had a profit of RMB19.3 billion for the Reporting Period, compared with a profit of RMB20.3 billion for the year ended December 31, 2020.

Adjusted Net Profit

Our adjusted net profit increased by 69.5% from RMB13.0 billion for the year ended December 31, 2020 to RMB22.0 billion for the Reporting Period.

Consolidated Statement of Cash Flows

	Year ended December 31,	
	2021	2020
	(in millions of RMB)	
Net cash generated from operating activities[1]	9,785.3	21,878.5
Net cash used in investing activities	(45,007.9)	(17,678.9)
Net cash generated from financing activities[1]	4,498.7	26,215.6
Net (decrease)/increase in cash and cash equivalents	(30,723.9)	30,415.2
Cash and cash equivalents at beginning of year	54,752.4	25,919.9
Effects of exchange rate changes on cash and cash equivalents	(516.9)	(1,582.7)
Cash and cash equivalents at end of year	23,511.6	54,752.4

Note:

(1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments resulting from the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar Bank, the net cash generated from operating activities was RMB6.7 billion for the Reporting Period, and RMB16.3 billion for the year ended December 31, 2020, respectively. Excluding the change of borrowings for the fintech business, the net cash generated from financing activities was RMB6.5 billion for the Reporting Period and RMB27.5 billion for the year ended December 31, 2020, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this annual report.

Net Cash Generated From Operating Activities

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

For the Reporting Period, net cash generated from our operating activities amounted to RMB9.8 billion, representing cash generated from operations of RMB12.2 billion minus income tax paid of RMB2.4 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB24.4 billion, adjusted by an increase in inventories of RMB13.7 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash Used In Investing Activities

For the Reporting Period, our net cash used in investing activities was RMB45.0 billion, which was primarily attributed to the net changes of short-term bank deposits of RMB13.9 billion, the purchase of long-term investments measured at fair value through profit or loss of RMB12.9 billion, the net changes of long-term bank deposits of RMB8.4 billion.

Net Cash Generated From Financing Activities

For the Reporting Period, our net cash generated from financing activities was RMB4.5 billion, which was primarily attributed to the increase in borrowings of RMB9.2 billion and the proceeds from fund partners of RMB3.5 billion, partially offset by the payments for shares repurchase of RMB7.0 billion.

Capital Expenditure

	Year ended December 31,	
	2021	2020
	(in millions of RMB)	
Capital expenditures	7,169.3	3,025.5
Placement of long-term investments[1]	13,098.5	8,844.1
Total	20,267.8	11,869.6

Note:

(1) Placement for long-term investments mainly represents ordinary shares investments and preferred shares investments.

Fourth Quarter of 2021 Compared to Fourth Quarter of 2020

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

	Unaudited Three months ended December 31, 2021	December 31, 2020
	(RMB in millions)	
Revenue	**85,575.2**	70,462.9
Cost of sales	**(70,915.7)**	(59,136.6)
Gross profit	**14,659.5**	11,326.3
Research and development expenses	**(3,853.2)**	(3,105.6)
Selling and marketing expenses	**(6,254.3)**	(5,090.3)
Administrative expenses	**(1,326.3)**	(1,275.8)
Fair value changes on investments measured at fair value through profit or loss	**3,879.1**	7,041.5
Share of net profits of investments accounted for using the equity method	**247.1**	368.2
Other income	**205.3**	246.9
Other (losses)/gains, net	**(3,141.6)**	90.7
Operating profit	**4,415.6**	9,601.9
Finance costs, net	**(531.1)**	(741.0)
Profit before income tax	**3,884.5**	8,860.9
Income tax expenses	**(1,442.0)**	(65.9)
Profit for the period	**2,442.5**	8,795.0
Non-IFRS Measure: Adjusted net profit	**4,473.1**	3,204.4

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 21.4% to RMB85.6 billion in the fourth quarter of 2021 from RMB70.5 billion in the fourth quarter of 2020. The following table sets forth our revenue by line of business in the fourth quarter of 2021 and the fourth quarter of 2020:

	Unaudited Three months ended			
	December 31, 2021		December 31, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	50,464.1	59.0%	42,634.5	60.5%
IoT and lifestyle products	25,066.6	29.3%	21,054.4	29.9%
Internet services	7,269.5	8.5%	6,175.1	8.8%
Others	2,775.0	3.2%	598.9	0.8%
Total revenue	85,575.2	100.0%	70,462.9	100.0%

Smartphones

Revenue from our smartphones segment increased by 18.4% from RMB42.6 billion in the fourth quarter of 2020 to RMB50.5 billion for the fourth quarter of 2021. Our smartphone shipment increased by 4.4% from 42.3 million in the fourth quarter of 2020 to 44.1 million in the fourth quarter of 2021.

The ASP of our smartphones increased by 13.3% from RMB1,009.1 per unit in the fourth quarter of 2020 to RMB1,143.6 per unit in the fourth quarter of 2021. The increase in ASP was primarily due to the increase in the percentage of premium smartphone shipment to the total smartphone shipment in the fourth quarter of 2021.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 19.1% from RMB21.1 billion in the fourth quarter of 2020 to RMB25.1 billion in the fourth quarter of 2021, primarily due to the increase in sales of smart TVs, *Xiaomi Pad 5* series tablets and smart watches. Revenue from smart TVs and laptops increased by 22.5% from RMB7.1 billion in the fourth quarter of 2020 to RMB8.7 billion in the fourth quarter of 2021, mainly due to the increase in both shipment and ASP of smart TVs.

Internet services

Revenue from our internet services segment increased by 17.7% from RMB6.2 billion in the fourth quarter of 2020 to RMB7.3 billion in the fourth quarter of 2021, mainly due to the increase in revenue from our advertising business. The internet services revenue in mainland China increased by 7.6% from RMB5.3 billion in the fourth quarter of 2020 to RMB5.7 billion in the fourth quarter of 2021. The internet services revenue overseas increased by 79.5% from RMB0.9 billion in the fourth quarter of 2020 to RMB1.6 billion in the fourth quarter of 2021.

Others

Other revenue increased by 363.3% from RMB0.6 billion in the fourth quarter of 2020 to RMB2.8 billion in the fourth quarter of 2021, primarily due to the sales of apartment buildings and materials.

Cost of Sales

Our cost of sales increased by 19.9% from RMB59.1 billion in the fourth quarter of 2020 to RMB70.9 billion in the fourth quarter of 2021. The following table sets forth our cost of sales by line of business in the fourth quarter of 2021 and the fourth quarter of 2020:

	Unaudited Three months ended			
	December 31, 2021		December 31, 2020	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	**45,346.1**	**53.0%**	38,162.9	54.2%
IoT and lifestyle products	**21,795.9**	**25.5%**	18,508.1	26.3%
Internet services	**1,740.2**	**2.0%**	1,951.0	2.8%
Others	**2,033.5**	**2.4%**	514.6	0.6%
Total cost of sales	**70,915.7**	**82.9%**	59,136.6	83.9%

Smartphones

Cost of sales related to our smartphones segment increased by 18.8% from RMB38.2 billion in the fourth quarter of 2020 to RMB45.3 billion in the fourth quarter of 2021, primarily due to the increase in our smartphone shipment.

IoT and lifestyle products

Cost of sales related to our IoT and lifestyle products segment increased by 17.8% from RMB18.5 billion in the fourth quarter of 2020 to RMB21.8 billion in the fourth quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 10.8% from RMB2.0 billion in the fourth quarter of 2020 to RMB1.7 billion in the fourth quarter of 2021, primarily due to a decrease in overall consumer loan balance in our fintech business.

Others

Cost of sales related to our others segment increased by 295.2% from RMB0.5 billion in the fourth quarter of 2020 to RMB2.0 billion in the fourth quarter of 2021, primarily due to the cost related to the sales of apartment buildings and materials.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 29.4% from RMB11.3 billion in the fourth quarter of 2020 to RMB14.7 billion in the fourth quarter of 2021. Our gross profit margin increased from 16.1% in the fourth quarter of 2020 to 17.1% in the fourth quarter of 2021.

The gross profit margin from our smartphones segment decreased slightly from 10.5% in the fourth quarter of 2020 to 10.1% in the fourth quarter of 2021 due to the enhanced promotional efforts during major shopping festivals particularly in mainland China in the fourth quarter of 2021.

The gross profit margin from our IoT and lifestyle products segment increased from 12.1% in the fourth quarter of 2020 to 13.0% in the fourth quarter of 2021, mainly due to the increased profit margin of overseas IoT products and the introduction of certain IoT products with higher profit margin.

The gross profit margin from our internet services segment increased from 68.4% in the fourth quarter of 2020 to 76.1% in the fourth quarter of 2021, mainly due to higher contribution from our advertising business.

Research and Development Expenses

Our research and development expenses increased by 24.1% from RMB3.1 billion in the fourth quarter of 2020 to RMB3.9 billion in the fourth quarter of 2021, primarily due to the increase in compensation for research and development personnel and higher development-related expenses.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 22.9% from RMB5.1 billion in the fourth quarter of 2020 to RMB6.3 billion in the fourth quarter of 2021, primarily due to the increase in logistics expenses and promotion and advertising expenses. The logistics expenses increased by 47.8% from RMB1.1 billion in the fourth quarter of 2020 to RMB1.6 billion in the fourth quarter of 2021, primarily due to the expansion of our overseas business. Promotion and advertising expenses increased by 7.9% from RMB2.3 billion in the fourth quarter of 2020 to RMB2.4 billion in the fourth quarter of 2021, primarily due to the increased expenditure for promotion of our products in mainland China in the fourth quarter of 2021.

Administrative Expenses

Our administrative expenses increased by 4.0% from RMB1,275.8 million in the fourth quarter of 2020 to RMB1,326.3 million in the fourth quarter of 2021.

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

Our fair value changes on investments measured at fair value through profit or loss decreased by 44.9% from a gain of RMB7.0 billion in the fourth quarter of 2020 to a gain of RMB3.9 billion in the fourth quarter of 2021, primarily due to the lower fair value gains of unlisted investments in the fourth quarter of 2021.

Share of Net Profits of Investments Accounted for Using the Equity Method

Our share of net profits of investments accounted for using the equity method changed from net profits of RMB368.2 million in the fourth quarter of 2020 to net profits of RMB247.1 million in the fourth quarter of 2021, primarily due to the consolidation of Zimi International Incorporation ("**Zimi**") in the third of quarter of 2021, which was previously accounted for using the equity method in the fourth quarter of 2020.

Other Income

Our other income decreased by 16.8% from RMB246.9 million in the fourth quarter of 2020 to RMB205.3 million in the fourth quarter of 2021, primarily due to the decrease in government grants.

MANAGEMENT DISCUSSION AND ANALYSIS

Other (Losses)/Gains, Net

Our other net (losses)/gains changed from net gains of RMB90.7 million in the fourth quarter of 2020 to net losses of RMB3,141.6 million in the fourth quarter of 2021. This is mainly due to the impairment of investments accounted for using the equity method, partially offset by gains on disposal from our investee companies in the fourth quarter of 2021.

Finance Costs, Net

Our net finance costs decreased by 28.3% from RMB741.0 million in the fourth quarter of 2020 to RMB531.1 million in the fourth quarter of 2021, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased from RMB65.9 million in the fourth quarter of 2020 to RMB1,442.0 million in the fourth quarter of 2021, primarily due to the increase in taxable income in the fourth quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB2.4 billion in the fourth quarter of 2021, compared with a profit of RMB8.8 billion in the fourth quarter of 2020.

Adjusted Net Profit

Our adjusted net profit increased by 39.6% from RMB3.2 billion in the fourth quarter of 2020 to RMB4.5 billion in the fourth quarter of 2021.

Fourth Quarter of 2021 Compared to Third Quarter of 2021

The following table sets forth the comparative figures for the fourth quarter of 2021 and the third quarter of 2021:

	Unaudited Three months ended	
	December 31, 2021	September 30, 2021
	(RMB in millions)	
Revenue	85,575.2	78,062.9
Cost of sales	(70,915.7)	(63,770.6)
Gross profit	14,659.5	14,292.3
Research and development expenses	(3,853.2)	(3,237.7)
Selling and marketing expenses	(6,254.3)	(4,882.3)
Administrative expenses	(1,326.3)	(1,274.6)
Fair value changes on investments measured at fair value through profit or loss	3,879.1	(1,975.6)
Share of net profits of investments accounted for using the equity method	247.1	45.1
Other income	205.3	234.9
Other losses, net	(3,141.6)	(472.3)
Operating profit	4,415.6	2,729.8
Finance costs, net	(531.1)	(942.6)
Profit before income tax	3,884.5	1,787.2
Income tax expenses	(1,442.0)	(998.6)
Profit for the period	2,442.5	788.6
Non-IFRS Measure: Adjusted net profit	4,473.1	5,175.6

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Revenue increased by 9.6% to RMB85.6 billion in the fourth quarter of 2021 from RMB78.1 billion in the third quarter of 2021. The following table sets forth our revenue by line of business in the fourth quarter of 2021 and the third quarter of 2021:

	Unaudited			
	Three months ended			
	December 31, 2021		September 30, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	50,464.1	59.0%	47,824.9	61.3%
IoT and lifestyle products	25,066.6	29.3%	20,935.6	26.8%
Internet services	7,269.5	8.5%	7,337.9	9.4%
Others	2,775.0	3.2%	1,964.5	2.5%
Total revenue	85,575.2	100.0%	78,062.9	100.0%

Smartphones

Revenue from our smartphones segment increased by 5.5% from RMB47.8 billion in the third quarter of 2021 to RMB50.5 billion in the fourth quarter of 2021. Our smartphone shipment increased from 43.9 million in the third quarter of 2021 to 44.1 million in the fourth quarter of 2021, mainly due to the increase in premium smartphone shipment. The ASP of our smartphones increased from RMB1,090.5 per unit in the third quarter of 2021 to RMB1,143.6 per unit in the fourth quarter of 2021, primarily due to the increase in the percentage of our premium smartphone shipment to total smartphone shipment of in the fourth quarter of 2021.

IoT and lifestyle products

Revenue from our IoT and lifestyle products segment increased by 19.7% from RMB20.9 billion in the third quarter of 2021 to RMB25.1 billion in the fourth quarter of 2021, primarily due to the increase in sales of smart TVs, tablets and robot vacuum cleaners. Revenue from smart TVs and laptops increased by 22.5% from RMB7.1 billion in the third quarter of 2021 to RMB8.7 billion in the fourth quarter of 2021, mainly due to the increase in smart TV shipment.

Internet services

Revenue from our internet services segment decreased by 0.9% from RMB7.3 billion in the third quarter of 2021 to RMB7.3 billion in the fourth quarter of 2021, mainly due to the decreased revenue of our other value-added services.

Others

Other revenue increased by 41.3% from RMB2.0 billion in the third quarter of 2021 to RMB2.8 billion in the fourth quarter of 2021, primarily due to the sales of apartment buildings.

Cost of Sales

Our cost of sales increased by 11.2% from RMB63.8 billion in the third quarter of 2021 to RMB70.9 billion in the fourth quarter of 2021.

	Unaudited Three months ended			
	December 31, 2021		September 30, 2021	
	Amount	% of total revenue	Amount	% of total revenue
	(RMB in millions, unless specified)			
Smartphones	45,346.1	53.0%	41,708.8	53.4%
IoT and lifestyle products	21,795.9	25.5%	18,509.7	23.7%
Internet services	1,740.2	2.0%	1,940.6	2.5%
Others	2,033.5	2.4%	1,611.5	2.1%
Total cost of sales	70,915.7	82.9%	63,770.6	81.7%

Smartphones

Cost of sales related to our smartphones segment increased by 8.7% from RMB41.7 billion in the third quarter of 2021 to RMB45.3 billion in the fourth quarter of 2021, primarily due to the increase in our smartphone shipment.

IoT and lifestyle products

Cost of sales in our IoT and lifestyle products segment increased by 17.8% from RMB18.5 billion in the third quarter of 2021 to RMB21.8 billion in the fourth quarter of 2021, primarily due to the increased sales of our IoT and lifestyle products.

Internet services

Cost of sales related to our internet services segment decreased by 10.3% from RMB1.9 billion in the third quarter of 2021 to RMB1.7 billion in the fourth quarter of 2021, primarily due to the decreased costs of our other value-added services.

MANAGEMENT DISCUSSION AND ANALYSIS

Others

Cost of sales related to our others segment increased by 26.2% from RMB1.6 billion in the third quarter of 2021 to RMB2.0 billion in the fourth quarter of 2021, mainly due to the cost related to the sales of apartment buildings.

Gross Profit and Margin

As a result of the foregoing, our gross profit increased by 2.6% from RMB14.3 billion in the third quarter of 2021 to RMB14.7 billion in the fourth quarter of 2021. Our gross profit margin decreased from 18.3% in the third quarter of 2021 to 17.1% in the fourth quarter of 2021.

The gross profit margin from our smartphones segment decreased from 12.8% in the third quarter of 2021 to 10.1% in the fourth quarter of 2021 due to the enhanced promotional efforts in major shopping festivals particularly in mainland China in the fourth quarter of 2021.

The gross profit margin from our IoT and lifestyle products segment increased from 11.6% in the third quarter of 2021 to 13.0% in the fourth quarter of 2021, mainly attributable to the increased profit margin of smart TVs.

The gross profit margin from our internet services segment increased from 73.6% in the third quarter of 2021 to 76.1% in the fourth quarter of 2021, mainly due to higher contribution from our advertising business.

Research and Development Expenses

Our research and development expenses increased by 19.0% from RMB3.2 billion in the third quarter of 2021 to RMB3.9 billion in the fourth quarter of 2021, primarily due to the higher development-related expenses.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 28.1% from RMB4.9 billion in the third quarter of 2021 to RMB6.3 billion in the fourth quarter of 2021, primarily due to the increase in promotion and advertising expenses. The promotion and advertising expenses increased by 53.8% from RMB1.6 billion in the third quarter of 2021 to RMB2.4 billion in the fourth quarter of 2021, primarily due to the increased expenditure for promotion of our products, for our brand marketing and for overseas market business development.

Administrative Expenses

Our administrative expenses increased by 4.1% from RMB1,274.6 million in the third quarter of 2021 to RMB1,326.3 million in the fourth quarter of 2021.

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

Our fair value changes on investments measured at fair value through profit or loss changed from a loss of RMB2.0 billion in the third quarter of 2021 to a gain of RMB3.9 billion in the fourth quarter of 2021, primarily due to improved market sentiment towards technology sector in mainland China in the fourth quarter of 2021.

Share of Net Profits of Investments Accounted for Using the Equity Method

Our share of net profits of investments accounted for using the equity method changed from net profits of RMB45.1 million in the third quarter of 2021 to net profits of RMB247.1 million in the fourth quarter of 2021, primarily due to the dilution gain from Kingsoft Cloud in the fourth quarter of 2021.

Other Income

Our other income decreased by 12.6% from RMB234.9 million in the third quarter of 2021 to RMB205.3 million in the fourth quarter of 2021.

Other Losses, Net

Our other net losses changed from RMB0.5 billion in the third quarter of 2021 to RMB3.1 billion in the fourth quarter of 2021. This is due to the impairment of investments accounted for using the equity method, partially offset by gains on disposal from our investee companies in the fourth quarter of 2021.

Finance Costs, Net

Our net finance costs decreased by 43.7% from RMB942.6 million in the third quarter of 2021 to RMB531.1 million in the fourth quarter of 2021, primarily due to the decrease in changes of value of financial liabilities to fund investors.

Income Tax Expenses

Our income tax expenses increased by 44.4% from RMB998.6 million for the third quarter of 2021 to RMB1,442.0 million in the fourth quarter of 2021, primarily due to the increase in taxable income, partially offset by the additional deductibility of expense items in the fourth quarter of 2021.

Profit for the Period

As a result of the foregoing, we had a profit of RMB0.8 billion and a profit of RMB2.4 billion for the third and fourth quarter of 2021, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Adjusted Net Profit

Our adjusted net profit is RMB5.2 billion and RMB4.5 billion for the third and fourth quarter of 2021, respectively.

Non-IFRS Measure: Adjusted Net Profit

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

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

The following tables set forth reconciliations of the Group's Non-IFRS measures for the fourth quarter of 2021, the third quarter of 2021, the fourth quarter of 2020 and the years ended December 31, 2021 and 2020 to the nearest measures prepared in accordance with IFRS.

	Unaudited Three Months Ended December 31, 2021						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the period	2,442,503	448,595	165,520	36,081	613,733	766,683	4,473,115
Net margin	2.9%						5.2%

	Unaudited Three Months Ended September 30, 2021						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the period	788,517	298,489	3,095,450	33,112	1,030,405	(70,398)	5,175,575
Net margin	1.0%						6.6%

	Unaudited Three Months Ended December 31, 2020						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the period	8,794,995	660,624	(7,108,419)	79	864,430	(7,318)	3,204,391
Net margin	12.5%						4.5%

MANAGEMENT DISCUSSION AND ANALYSIS

	Year Ended December 31, 2021						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the year	19,283,235	2,035,569	(2,241,513)	69,351	2,057,133	835,699	22,039,474
Net margin	5.9%						6.7%

	Year Ended December 31, 2020						
		Adjustments					
	As reported	Share-based compensation	Net fair value changes on investments[1]	Amortization of intangible assets resulting from acquisitions[2]	Changes of value of financial liabilities to fund investors[3]	Income tax effects[4]	Non-IFRS
	(RMB in thousand, unless specified)						
Profit for the year	20,312,710	2,328,319	(12,187,807)	316	2,892,323	(339,498)	13,006,363
Net margin	8.3%						5.3%

Notes:

(1) Includes fair value changes on ordinary shares investments and preferred shares investments deducting the cumulative fair value changes for investments (including the financial assets measured at fair value through profit or loss ("**FAFVPL**") and the investments using the equity method transferred from FAFVPL) disposed in the current period, net gains/(losses) on deemed disposals of investee companies, the impairment provision for investments, re-measurement of loss of significant influence in an associate and, re-measurement of investments transferring from FAFVPL to investments using the equity method.

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

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

(4) Income tax effects of non-IFRS adjustments.

Hardware Business Net Margin

HB overall net profit margin rate[1] *= HB overall net profit/Revenue from HB*

HB overall profit before tax *= Revenue from HB – Cost of sales of HB – Selling and marketing expenses of HB – Administrative expenses of HB – Research and development expenses of HB*

HB overall net profit *= HB overall profit before tax – Income tax expenses of HB*

Share-based compensation expenses are excluded from selling and marketing expenses of HB, administrative expenses of HB, research and development expenses of HB. Income tax expenses of HB equals to the HB overall profit before tax multiplied by the effective tax rate of the Group.

Note:

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

Liquidity, Financial Resources and Gearing

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

Other than the funds raised through our Global Offering in July 2018, the 2020 Placing and Subscription and the issuance of debt securities as described in "Issuance of Debt Securities" below, we have historically funded our cash requirements principally from cash generated from our operations and bank borrowings. We had cash and cash equivalents of RMB23.5 billion and RMB32.6 billion as of December 31, 2021 and September 30, 2021, respectively.

Note:

The cash resources which the Group considered in cash management including but not limited to cash and cash equivalents, restricted cash, short-term bank deposits, short-term investments measured at fair value through profit or loss, short-term investments measured at amortized cost and long-term bank deposits. As of December 31, 2021, the aggregate amount of cash resources of the Group was RMB106.0 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Our gearing ratio was -35.6% and -31.1%, which represented a net cash position, as of September 30, 2021 and December 31, 2021, 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 short-term bank deposits. Total capital is calculated as total equity plus net debt.

Issuance of Debt Securities

On April 29, 2020, Xiaomi Best Time International Limited, a wholly owned subsidiary of the Company, issued US$600 million 3.375% senior notes due 2030 unconditionally and irrevocably guaranteed by the Company (the "**2030 Notes**"). The 2030 Notes are listed on the Stock Exchange. For further details, please refer to the announcements of the Company published on April 20, 2020, April 23, 2020 and May 3, 2020.

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

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

Consolidated Statement of Cash Flows

	Unaudited Three months ended December 31, 2021	September 30, 2021
	(in millions of RMB)	
Net cash generated from/(used in) operating activities[1]	11,731.7	(10,230.7)
Net cash (used in)/generated from investing activities	(20,071.5)	7,050.9
Net cash (used in)/generated from financing activities[1]	(550.1)	3,978.6
Net (decrease)/increase in cash and cash equivalents	(8,889.9)	798.8
Cash and cash equivalents at beginning of period	32,649.5	31,881.0
Effects of exchange rate changes on cash and cash equivalents	(248.0)	(30.3)
Cash and cash equivalents at end of period	23,511.6	32,649.5

Note:

(1) Excluding (1) the change of loan and interest receivables and impairment provision for loan receivables mainly resulting from the fintech business; (2) the change of trade payments resulting from the finance factoring business; (3) the change of restricted cash resulting from the fintech business; and (4) the change of deposits from customers resulting from the Airstar Bank, the net cash generated from operating activities was RMB12.0 billion in the fourth quarter of 2021 and the net cash used in operating activities was RMB12.9 billion in the third quarter of 2021, respectively. Excluding the change of borrowings for the fintech business, the net cash used in financing activities was RMB2.2 billion in the fourth quarter of 2021 and the net cash generated from financing activities was RMB4.6 billion in the third quarter of 2021, respectively. The information in this footnote is based on the management accounts of the Group, which have not been audited or reviewed by the Group's auditor. The accounting policies applied in the preparation of the management accounts are consistent with those used for other figures in this annual report.

Net Cash Generated From Operating Activities

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

In the fourth quarter of 2021, net cash generated from our operating activities amounted to RMB11.7 billion, representing cash generated from operations of RMB12.0 billion minus income tax paid of RMB0.3 billion. Cash generated from operations was primarily attributable to our profit before income tax of RMB3.9 billion, adjusted by a decrease in prepayments and other receivables of RMB4.6 billion, and a decrease in inventories of RMB4.3 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash Used In Investing Activities

For the fourth quarter of 2021, our net cash used in investing activities was RMB20.1 billion, which was primarily attributed to the net changes of short-term investments measured at fair value through profit or loss of RMB9.3 billion, the net changes of short-term bank deposits of RMB7.2 billion and the purchase of long-term investments measured at fair value through profit or loss of RMB2.5 billion.

Net Cash Used In Financing Activities

For the fourth quarter of 2021, our net cash used in financing activities was RMB0.6 billion, which was primarily attributed to the payments for shares repurchase of RMB0.5 billion and the payment of lease liabilities of RMB0.4 billion, partially offset by the increase in borrowings of RMB0.6 billion.

Borrowings

As of September 30, 2021 and December 31, 2021, we had total borrowings of RMB25.9 billion and RMB26.2 billion, respectively.

Capital Expenditure

	Three months ended	
	December 31, 2021	September 30, 2021
	(in millions of RMB)	
Capital expenditures	**2,010.3**	3,330.1
Placement of long-term investments[1]	**2,592.2**	5,534.5
Total	**4,602.5**	8,864.6

Note:

(1) Placement for long-term investments mainly represents ordinary shares investments and preferred shares investments.

Off-Balance Sheet Commitments and Arrangements

As of December 31, 2021, except for financial guarantee contracts, we had not entered into any significant off-balance sheet commitments or arrangements.

Future Plans for Material Investments and Capital Assets

As of December 31, 2021, we did not have other plans for material investments and capital assets.

Investments Held

As of December 31, 2021, aggregate book value of our investment is RMB60.3 billion, an increase of 25.7% year-over-year. Save as disclosed herein, there are no material changes in our investment portfolio affecting the Company's performance that need to be disclosed under paragraphs 32 and 40(2) of Appendix 16 to the Listing Rules.

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

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5% or more of the Group's total assets as of December 31, 2021) during the Reporting Period.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

On July 5, 2021, the transaction concerning the acquisition of Zimi was closed. Zimi has become a wholly-owned subsidiary of the Group. Further details of the transaction can be found in the announcement of the Company published on March 24, 2021.

On September 22, 2021, the transaction concerning the acquisition of Deepmotion Tech Limited ("**Deepmotion**", an autonomous driving technology company) was closed. Deepmotion has become a wholly-owned subsidiary of the Group. Further details of the transaction can be found in the announcement of the Company published on August 25, 2021.

Save as disclosed above, during the Reporting Period, we did not conduct any material acquisitions or disposals of subsidiaries and affiliated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Employee and Remuneration Policy

As of December 31, 2021, we had 33,427 full-time employees, 30,943 of whom were based in mainland China, primarily at our headquarters in Beijing, with the rest primarily based in India and Indonesia. We expect to continue to increase our headcount in mainland China and our key target global markets. As of December 31, 2021, our research and development personnel, totaling 14,592 employees, were staffed across our various departments.

Our success depends on our ability to attract, retain and motivate qualified personnel. As part of our human resources strategy, we offer employees competitive compensation packages. As of December 31, 2021, 14,608 employees held share-based awards. The total remuneration expenses, including share-based compensation expense, for the Reporting Period were RMB13.8 billion, representing an increase of 39.4% from the year ended December 31, 2020 of RMB9.9 billion.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from pension funds and in-house training programmes, discretionary bonuses, share awards and share options may be awarded to employees according to the assessment of individual performance.

Foreign Exchange Risk

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

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

Pledge of Assets

As of December 31, 2021, we pledged restricted deposits of RMB4,319.7 million, compared with RMB2,563.7 million as of September 30, 2021. The restricted deposits as of December 31, 2021 were primarily for an ongoing tax investigation in India. We also had pledged certain buildings, construction in progress and land use right for borrowings.

Contingent Liabilities

As of December 31, 2021, we did not have any material contingent liabilities, compared with nil as of September 30, 2021. Further details of the contingencies are set out in Note 37 to the consolidated financial statements.

DIRECTOR'S REPORT

The Board of the Company is pleased to present this Director's report together with the consolidated financial statements of the Group for the Reporting Period.

Principal Activities

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

Business Review

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

Subsidiaries

Particulars of the Company's subsidiaries are set out in Note 12 to the consolidated financial statements.

Property and Equipment

Details of movements in the property and equipment of the Group during the Reporting Period are set out in Note 15 to the consolidated financial statements.

Bank Loans and Borrowings

Particulars of bank loans and other borrowings of the Group as of December 31, 2021 are set out in the section headed "Management Discussion and Analysis" in this annual report and Note 34 to the consolidated financial statements.

Donation

During the Reporting Period, the Group made charitable donations of approximately RMB22.5 million.

DIRECTOR'S REPORT

Issuance of Debt Securities

On April 29, 2020, Xiaomi Best Time International Limited, a wholly owned subsidiary of the Company, issued US$600 million 3.375% senior notes due 2030 unconditionally and irrevocably guaranteed by the Company (the "**2030 Notes**"). The 2030 Notes are listed on the Stock Exchange. For further details, please refer to the announcements of the Company published on April 20, 2020, April 23, 2020 and May 3, 2020.

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

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

Five-Year Financial Summary

A summary of the condensed consolidated results and financial positions of the Group is set out on page 6 of this annual report.

Reserves

As of December 31, 2021, the Company had distributable reserves amounting to RMB56,918.5 million. Details of the movements in the reserves of the Company during the Reporting Period are set out in Note 42(b) to the consolidated financial statements.

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

During the Reporting Period and up to the Latest Practicable Date, the Company repurchased a total of 418,697,200 Class B Shares (the "**Shares Repurchased**") of the Company on The Stock Exchange at an aggregate consideration of approximately HK$9,525,404,847. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share Highest (HK$)	Price paid per share Lowest (HK$)	Aggregate Consideration (HK$)
2021				
March	19,307,600	26.20	25.50	498,900,661
April	173,381,600	27.20	24.60	4,494,026,504
July	15,250,000	26.40	25.20	393,626,650
August	16,150,000	24.90	24.20	396,677,775
September	85,229,400	25.00	21.25	1,965,668,178
October	13,985,400	21.25	20.40	291,663,583
November	2,604,000	19.12	19.06	49,723,380
December	17,610,400	19.52	17.64	326,366,744
2022				
January	14,295,000	18.64	17.70	261,322,614
March	35,209,000	14.60	13.46	498,281,463
April	25,674,800	13.82	13.08	349,147,295
Total	418,697,200			9,525,404,847

As at the Latest Practicable Date, the number of Class B Shares in issue was reduced by 357,813,400 as a result of the cancellation of the Shares Repurchased in March, April, July, August, September, October, November and December 2021 and January 2022 accordingly, and all of the Shares Repurchased in March and April 2022 are in the process of being cancelled. Upon cancellation of the Shares Repurchased, the WVR beneficiaries of the Company, simultaneously reduced their WVR in the Company proportionately by way of converting their Class A into Class B Shares on a one-to-one ratio pursuant to 8A.21 of the Listing Rules, such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under 8A.13 and 8A.15 of the Listing Rules.

The Shares Repurchased in March 2021 and April 2021 were subsequently cancelled on June 3, 2021. A total of 35,794,228 Class A Shares were converted into Class B Shares on a one-to-one ratio on June 3, 2021, of which Mr. Lei Jun, through

DIRECTOR'S REPORT

Smart Mobile Holdings Limited, converted 32,236,626 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 3,557,602 Class A Shares. The Shares Repurchased in July 2021 were subsequently cancelled on August 20, 2021. A total of 2,831,101 Class A Shares were converted into Class B Shares on a one-to-one ratio on August 20, 2021, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 2,549,717 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 281,384 Class A Shares. The Shares Repurchased in August 2021, September 2021 and October 2021 were subsequently cancelled on November 12, 2021. A total of 21,394,443 Class A Shares were converted into Class B Shares on a one-to-one ratio on November 12, 2021, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 19,268,041 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 2,126,402 Class A Shares. The Shares Repurchased in November 2021, December 2021 and January 2022 were subsequently cancelled on March 11, 2022. A total of 6,392,324 Class A Shares were converted into Class B Shares on a one-to-one ratio on March 11, 2022, of which Mr. Lei Jun, through Smart Mobile Holdings Limited, converted 5,756,989 Class A Shares and Mr. Lin Bin, through Bin Lin 2021 A Trust, converted 635,335 Class A Shares.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the Reporting Period and up to the Latest Practicable Date.

Share Option Schemes

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

1. Pre-IPO ESOP

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

(a) Purpose

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

(b) **Eligible participants**

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

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

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

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

There is no maximum entitlement of each participant.

(e) **Option period**

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

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

(f) **Exercise price and payment**

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

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

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

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

As of December 31, 2021, 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 400,906,827 outstanding Class B Shares, representing approximately 1.6% of the issued shares of the Company as at the Latest Practicable Date. Pre-IPO ESOP exercised during the Reporting Period was 71,118,410 Class B

DIRECTOR'S REPORT

Shares. Except for Chew Shou Zi (who has resigned as an executive Director of the Company with effect from March 24, 2021) and Liu De, no share options and RSUs had been granted to the Directors and other connected persons. No further option could be granted under the Pre-IPO ESOP after the Listing.

Details of movements of share options and RSUs granted under the Pre-IPO ESOP during the Reporting Period are as follows:

Grantees	Dates of grant	Vesting period	Outstanding as of January 1, 2021	Cancelled/ Lapsed during the year	Exercised during the year	Outstanding as of December 31, 2021	Exercise price (US$)
Director							
Chew Shou Zi[1]	August 1, 2015 January 1, 2018	5–10 years	18,511,041	(8,500,000)	(10,011,041)	–	0–0.10225
Liu De	January 1, 2018	5–10 years	6,923,480	–	(1,538,260)	5,385,220	0–0.10225
Other employees							
7,124 grantees in aggregate	Between April 1, 2010 to June 14, 2018	1–10 years	466,365,449	(11,274,733)	(59,569,109)	395,521,607	0–0.34
Total			491,799,970	(19,774,733)	(71,118,410)	400,906,827	

Further details of the Pre-IPO ESOP are set out in Note 29 to the consolidated financial statements.

Note:

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

2. Post-IPO Share Option Scheme

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

(a) Purpose

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

(b) **Eligible participants**

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

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

The total number of Class B Shares which may be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other schemes is 1,568,094,311 Class B Shares, being no more than 10% of the Class B Shares in issue on the Listing Date and representing approximately 6.28% of the issued shares as at the Latest Practicable Date. The overall limit on the number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other share option schemes of the Company at any time (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the Class B Shares in issue from time to time.

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

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

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

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

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

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

(f) Exercise price

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

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

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

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

(g) Remaining life of the scheme

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

As of December 31, 2021, 233,500,000 options had been granted pursuant to the Post-IPO Share Option Scheme since its adoption. The total number of Class B Shares available for grant under the Post-IPO Share Option Scheme is 1,446,194,311 Class B Shares, representing approximately 5.79% of the issued share capital of the Company as at the Latest Practicable Date.

Details of movements of share options granted under the Post-IPO ESOP during the Reporting Period are as follows:

				Number of share options						
Grantees in aggregate	Dates of grant	Vesting period	Exercise period	Outstanding as of January 1, 2021	Granted during the period	Cancelled/ Lapsed during the year	Exercised during the year	Outstanding as of December 31, 2021	Exercise price (HK$)	The closing price of the shares immediately before the date of grant of the Option (HK$)
Director										
Chew Shou Zi[1]	September 4, 2020	10 years	September 4, 2025 to September 3, 2030	100,000,000	–	(100,000,000)	–	–	24.50	24.50
Other employees										
1	July 2, 2020	4 years	July 2, 2021 to July 1, 2030	3,000,000	–	–	–	3,000,000	13.60	13.60
6	September 4, 2020	4–10 years	September 4, 2021 to September 3, 2030	118,000,000	–	(11,600,000)	–	106,400,000	24.50	24.50
1	October 9, 2020	4 years	October 9, 2021 to October 8, 2030	6,250,000	–	–	–	6,250,000	21.04	20.95
1	January 6, 2021	4 years	January 6, 2022 to January 5, 2031	–	6,250,000	–	–	6,250,000	33.90	33.90
Total				**227,250,000**	**6,250,000**	**(111,600,000)**	**–**	**121,900,000**		

Further details of the Post-IPO ESOP are set out in Note 29 to the consolidated financial statements.

Note:

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

DIRECTOR'S REPORT

3. XMF Share Option Schemes

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

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

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

Details	XMF Share Option Scheme I	XMF Share Option Scheme II
3. Maximum number of shares available for issue	The overall limit on the number of XMF Shares that may be issued upon exercise of all outstanding options granted and yet to be exercised under the XMF Share Option Scheme I at any time shall not exceed 42,070,000 XMF Shares subject to any adjustments for share subdivisions or other dilutive issuances.	The maximum number of XMF shares represented by the options to be issued under the XMF Share Option Schemes shall be 150,000,000 XMF Shares.
4. Maximum entitlement of each participant	There is no maximum entitlement of each participant.	There is no maximum entitlement of a grantee, save that no options shall be granted to Lei Jun (or entities controlled by him) if such grant would result in Lei Jun's effective interest in Xiaomi Finance exceeding 28.0467% (being the effective equity interest of Lei Jun in the share capital of our Company on the Listing Date).

DIRECTOR'S REPORT

Details	XMF Share Option Scheme I	XMF Share Option Scheme II
5. Option period	An option may be exercised in accordance with the terms at any time during a period to be determined and notified by the XMF Board to each grantee at the time of grant, which shall end not later than 20 years from the date of grant of the option.	An option may, subject to the rules of the XMF Share Option Scheme II and the terms and conditions upon which such option is granted, be exercised in whole or in part by the grantee giving notice in writing to Xiaomi Finance in such form as the XMF Board may from time to time determine stating that the option is thereby exercised and the number of XMF Shares in respect of which it is exercised. The XMF Board has the authority to determine and to include in a grant offer letter the minimum period for which an option must be held before it can vest. The XMF Share Option Scheme II does not specify any minimum holding period.

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

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As of December 31, 2021, there were a total of 42,070,000 outstanding share options granted under the XMF Share Option Scheme I. Details of movements of share options granted under the XMF Share Option Scheme I during the Reporting Period are as follows:

Name	Date of grant	Option period	Number of XMF Shares represented by the options granted	Number of options exercised during the year	Numbers of options as of December 31, 2021	Subscription price (RMB)
Lei Jun	June 17, 2018	20 years from the date of grant	42,070,000	–	42,070,000	3.8325

As of December 31, 2021, no options had been granted or agreed to be granted pursuant to the XMF Share Option Scheme II since its adoption. The total number of XMF Shares available for grant under the XMF Share Option Scheme II was 107,930,000 XMF Shares, representing 107.93% of the issued share capital of Xiaomi Finance as at the Latest Practicable Date and 43.17% of the issued share capital of Xiaomi Finance assuming options representing the maximum number of XMF Shares under the XMF Share Option Schemes have been granted and fully exercised.

4. Pinecone Share Option Schemes

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

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

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

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

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

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

As of December 31, 2021, there were 56,706 outstanding Pinecone Options granted under the Pinecone Share Option Scheme I. The aggregate number of underlying Pinecone Ordinary Shares pursuant to the Pinecone Options granted is 9,532,868 Pinecone Ordinary Shares.

Details of movements of Pinecone Options under the Pinecone Share Option Scheme I during the Reporting Period are as follows:

			Number of share options			
Grantees in aggregate	Date of grant	Vesting period	Outstanding as of January 1, 2021	Cancelled/ Lapsed during the Year	Outstanding as of December 31, 2021	Exercise price (US$)
177	Between May 18, 2015 to June 8, 2018	4 years	56,706	–	56,706	0.0001 to 1.0377

As of December 31, 2021, no options under the Pinecone Share Option Scheme II had been granted or agreed to be granted since its adoption. The total number of Pinecone Ordinary Shares available for grant under the Pinecone Share Option Scheme II was 2,467,132 Pinecone Ordinary Shares, representing 9.87% of the issued share capital of Pinecone International as at the Latest Practicable Date.

5. Xiaomi EV Share Option Scheme

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

"Xiaomi EV Board"	the board of directors of Xiaomi EV
"Xiaomi EV Group"	Xiaomi EV, its subsidiaries and consolidated affiliated entities
"Xiaomi EV Options"	share options granted under the Xiaomi EV Share Option Scheme
"Xiaomi EV Share Awards"	restricted or unrestricted share awards granted under the Xiaomi EV Share Option Scheme
"Xiaomi EV Ordinary Shares"	ordinary share(s) of US$0.000005 each in the share capital of Xiaomi EV
"Xiaomi EV Subscription Price"	The price per Xiaomi EV Ordinary Share at which a grantee may subscribe for Xiaomi EV Ordinary Shares on the exercise of an option under the Xiaomi EV Share Option Scheme

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Details	Xiaomi EV Share Option Scheme
1. Purposes	To provide eligible participants with the opportunity to acquire interest in Xiaomi EV and to encourage eligible participants to work towards enhancing the value of Xiaomi EV and its shares for the benefit of Xiaomi EV and its shareholder, including our Company and the Shareholders, as a whole. The Xiaomi EV Share Option Scheme will provide Xiaomi EV with a flexible means of retaining, incentivizing, rewarding, remunerating, compensating and/or providing benefits to eligible participants.
2. Eligible participants	Any individual, being an employee or director of any member of the Xiaomi EV Group or the Group (including nominees and/or trustees of any employee benefit trust established for such employees or directors, which, in the avoidance of doubt, any Xiaomi EV Options so granted shall be personal to the such employees or directors and shall not be transferable or assignable), and any consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Xiaomi EV Group or the Group who the Xiaomi EV Board or its delegate(s) considers, in its sole discretion, to have contributed or will contribute to the Xiaomi EV Group is entitled to be offered and granted options.
3. Maximum number of shares available for issue	The total number of underlying shares which may be issued upon exercise of all options granted pursuant to the Xiaomi EV Share Option Scheme is 1,000,000,000 Xiaomi EV Shares.
4. Maximum entitlement of each participant	The total number of Xiaomi EV Ordinary Shares issued and to be issued upon exercise of the options granted and to be granted under Xiaomi EV Share Option Scheme to each selected participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1.0% of the total number of Xiaomi EV Ordinary Shares in issue.
5. Option period	A period within which an Option may be exercised, which is to be determined and notified by the Xiaomi EV Board to each grantee at the time of making an offer, and shall not expire later than ten years from the grant date.

Details	Xiaomi EV Share Option Scheme
6. Exercise Price	The Xiaomi EV Subscription Price shall be determined by the Xiaomi EV Board in relation to each option at the time of grant and specify the Xiaomi EV Subscription Price in the grant offer letter. An offer shall be deemed to have been accepted and the option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the grant offer letter comprising acceptance of the offer duly signed by the grantee with the number of Xiaomi EV Ordinary Shares in respect of which the offer is accepted clearly stated therein, together with a remittance in favor of Xiaomi EV of HK$1.00 by way of consideration for the grant thereof, which must be received by Xiaomi EV within 20 business days from the date on which the grant offer letter is delivered to the grantee.
7. Remaining life of the scheme	It shall be valid and effective for the period of ten years commencing October 25, 2021.

As of December 31, 2021, no options under the Xiaomi EV Share Option Scheme had been granted since its adoption on October 25, 2021. The total number of Xiaomi EV Ordinary Shares available for grant under the Xiaomi EV Share Option Scheme was 1,000,000,000 Xiaomi EV Ordinary Shares, representing 10% of the issued share capital of Xiaomi EV as at the Latest Practicable Date.

Share Award Scheme

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

1. Purpose

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

2. Eligible participants

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

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

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

4. **Maximum entitlement of each participant**

   There is no maximum entitlement of each participant.

5. **Restrictions on grants**

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

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

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

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

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

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

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

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

6. Vesting and lapse

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

7. Rights attached to the Award Shares

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

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

8. Duration and Termination

The Share Award Scheme shall terminate on the earlier of:

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

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

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During the Reporting Period, a total of 266,536,527 Award Shares were granted to 8,455 participants, of which 3 participants are connected persons of the Company, under the Share Award Scheme. Details of the Award Shares granted under the Share Award Scheme and the movements during the Reporting Period are as follows:

Grantees in aggregate	Date of grant	Outstanding as of January 1, 2021	Number of Award Shares Granted during the year	Vested during the year	Lapsed during the year	Outstanding as of December 31, 2021
Connected persons other than directors						
2	January 6, 2021	–	17,874	–	–	17,874
1	November 24, 2021	–	11,492	–	–	11,492
Other employees						
299	April 1, 2019	15,070,330	–	(2,235,197)	(599,063)	12,236,070
20,538	July 19, 2019	–	–	–	–	–
457	September 4, 2019	20,137,737	–	(6,688,423)	(1,474,462)	11,974,852
380	November 28, 2019	12,308,731	–	(3,881,808)	(965,158)	7,461,765
1,646	January 6, 2020	44,596,517	–	(10,999,575)	(3,119,381)	30,477,561
1,849	April 1, 2020	34,381,772	–	(15,577,642)	(3,144,755)	15,659,375
609	July 2, 2020	20,642,677	–	(4,102,667)	(2,758,153)	13,781,857
3	September 4, 2020	18,000,000	–	(1,000,000)	(3,000,000)	14,000,000
579	October 10, 2020	10,263,354	–	(3,232,427)	(2,327,260)	4,703,667
2,403	January 6, 2021	–	16,848,435	(301,671)	(3,331,869)	13,214,895
3,904	July 2, 2021	–	70,231,664	(164,701)	(3,380,661)	66,686,302
122	July 5, 2021	–	119,650,000	–	(3,300,000)	116,350,000
2,023	November 24, 2021	–	59,777,062	(5,710,202)	(918,743)	53,148,117
Total 34,815		175,401,118	266,536,527	(53,894,313)	(28,319,505)	359,723,827

Further details of movements in the Share Award Scheme are set out in Note 29 to the consolidated financial statements.

Equity-Linked Agreements

Save as disclosed in the sections headed "Share Option Schemes", "Share Award Scheme" and "Issuance of Debt Securities", no equity-linked agreements were entered into by the Group, or existed during the Reporting Period.

Directors and Senior Management

The Directors of the Company during the Reporting Period and up to the date of the annual report were:

Executive Directors

Lei Jun
Lin Bin
Chew Shou Zi *(resigned from the Board with effect from March 24, 2021)*
Liu De *(appointed to the Board with effect from March 24, 2021)*

Non-Executive Director

Liu Qin

Independent Non-Executive Directors

Chen Dongsheng
Wong Shun Tak
Tong Wai Cheung Timothy

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

Biographical Details and Other Information of the Directors

The biographical details of the Directors who held office during the Reporting Period and up to the Latest Practicable Date are as out below:

Lei Jun (雷軍), aged 52, is an executive Director, the Founder, the Chairman, the CEO of the Company, and the chief executive officer of the smart electric vehicle business. He is also a member of the Remuneration Committee. Lei Jun is overall responsible for the Company's strategy, company culture and key products. He oversees the senior management team. Lei Jun currently holds directorships in various subsidiaries, Consolidated Affiliated Entities and operating entities of the Group.

Lei Jun is a renowned angel investor in mainland China. Lei Jun joined Kingsoft Corporation Limited (SEHK Stock Code: 3888) in 1992 and has held various senior positions in Kingsoft, including as the chairman of the board since July 2011, non-executive director since August 2008 and the chief executive officer between 1998 and December 2007. From December 2011, Lei Jun has served as a director of Beijing Kingsoft Office Software, Inc. (Sci-Tech Innovation Board of the Shanghai Stock Exchange ticker: 688111). From April 2015, Lei Jun has been the chairman of the board of Kingsoft Cloud Holdings Limited (NASDAQ ticker: KC).

Lei Jun graduated from Wuhan University (武漢大學) in July 1991 and received a Bachelor of Science in Computer Science. He has been a member of the board of Wuhan University since November 2003.

Lei Jun was elected as one of the "Top 10 Economic Personages of China in 2017", and one of "100 Outstanding Private Entrepreneurs at the 40th Anniversary of the China's Reform and Opening-up". In 2020, Lei Jun was honored with title of "National Advanced Individual of Private Economy Fighting against COVID-19", title of "Beijing Model Worker", and title of "Outstanding Entrepreneur in the 30th Anniversary of Capital Market". In 2021, Lei Jun was awarded the 11th

DIRECTOR'S REPORT

"China Charity Award" by the Ministry of Civil Affairs of the People's Republic of China, ranked first in Forbes "2021 China's Best CEO List" and was selected as one of the "Top 10 News Figures of China's Private Economy in 2021".

Lin Bin (林斌), aged 54, is an executive Director, a Co-founder and the Vice Chairman of the Board. He is also a member of the Nomination Committee. Lin Bin currently holds directorships in various subsidiaries of the Group.

Lin Bin co-founded Xiaomi with Lei Jun in 2010. He served as President of Xiaomi until 2019 when he took on the role of Vice Chairman. During the early phase of Xiaomi's development, Bin was responsible for HR recruiting, legal and finance operation, strategic partnerships with key suppliers, and overseas market expansion in countries like India, Indonesia etc. As the company grew, Bin also oversaw the company's domestic sales and marketing, after-sales services operations, and Xiaomi's smartphone business.

Lin Bin had served as an Engineering Director at Google Inc. between 2006 and 2010. Before this, he had worked at Microsoft Corporation from 1995 to 2006 and served various roles such as Software Design Engineer (SDE), SDE Lead, SDE Manager, and Engineering Director. Prior to this, Lin Bin worked as a Network Engineer at ADP Inc. since May 1993.

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

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

Liu De (劉德), aged 48, is an executive Director, a Co-Founder, Senior Vice President and Head of Organization Department, is currently responsible for the recruitment, promotion, training and evaluation of the middle and senior management of the Group, as well as the organizational structure design and approval procedures of each department. Mr. Liu is a director of various members of the Group. Mr. Liu is also a director of Ninebot Limited (Shanghai Stock Exchange Stock Code: 689009), Viomi Technology Co., Ltd. (NASDAQ ticker: VIOT) and Zepp Health Corporation (NYSE ticker: ZEPP). In October 2002, Liu De co-founded Beijing Xinfengrui Industrial Design Co., Ltd. (北京新鋒銳工業設計公司) and served as its executive director until 2007.

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

Liu Qin (劉芹), former name: Liu Ya (劉雅), aged 49, is a non-executive Director and a member of the Audit Committee. Liu Qin became a Director of the Company in May 2010, and he currently holds directorships in various subsidiaries of the Company. Liu Qin co-founded and has served as managing director of 5Y Capital (formerly known as Morningside Venture Capital Limited) since June 2007. The funds under 5Y Capital's management had been the earliest investors of the Group. Before co-founding 5Y Capital, Liu Qin served various roles including as a business development director for investment at Morningside IT Management Services (Shanghai) Co. Ltd. (晨興信息科技諮詢(上海)有限公司) from July 2000 to November 2008. Since June 2008, Liu Qin has been a director of JOYY Inc. (NASDAQ ticker: YY). Since December 2014, Liu Qin has been a director of Agora, Inc. (NASDAQ ticker: API). Liu Qin has also served as a non-executive director of XPeng Inc. (NYSE ticker: XPEV, SEHK stock code: 9868) since September 12, 2019.

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

Chen Dongsheng (陳東升), aged 64, has served as an independent non-executive Director since June 2018. He also currently serves the chairman of both the Remuneration Committee and the Corporate Governance Committee, and a member of the Audit Committee. Chen Dongsheng founded Taikang Insurance Group Inc. (泰康保險集團股份有限公司) (formerly known as Taikang Life Insurance Co., Ltd (泰康人壽保險股份有限公司)) ("**Taikang**") in 1996. He serves the chairman and CEO of Taikang and holds various directorships within the Taikang group. Prior to this, Chen Dongsheng served as the chairman and the general manager of China Guardian Auctions Co., Ltd (中國嘉德國際拍賣有限公司) from May 1993. Prior to this, Chen Dongsheng worked as the deputy editor of the Management World (monthly), published by the Development Research Center of the State Council of China.

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

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

Wong Shun Tak (王舜德), aged 61, currently serves as an independent non-executive Director, the chairman of the Audit Committee, and a member of the Remuneration Committee, Corporate Governance Committee and Nomination Committee. In 2014, Wong Shun Tak co-founded and had concurrently served as the CFO of Rokid Corporation Ltd. Wong Shun Tak has served as the independent non-executive Director, chairman of the nomination committee, chairman of the remuneration committee and member of the audit committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) since July 2014. Wong Shun Tak served as an executive director and CFO of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from October 2011 to July 2012, and also acted as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Kingsoft Corporation Limited (SEHK Stock Code: 3888) from April 2007 to September 2011. Wong Shun Tak has served as an independent non-executive director and the chairman of the audit committee of the Company since June 2018. Mr. Wong currently serves as an independent non-executive director of several subsidiaries of the Company.

DIRECTOR'S REPORT

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

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

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

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

Professor Tong Wai Cheung Timothy (唐偉章) ("**Prof. Tong**"), aged 68, is an independent non-executive Director, the chairman of the Nomination Committee and a member of the Corporate Governance Committee. He join the Group in August 2019.

Prof. Tong received a Bachelor's degree in Mechanical Engineering from Oregon State University, and a Master of Science and PhD degree in the same discipline from the University of California at Berkeley. Prof. Tong serves as the chairman of the Council, Hong Kong Laureate Forum and as a member of the InnoHK Steering Committee. Additionally, he has been appointed a Non-official Justice of the Peace and a member of the Chinese People's Political Consultative Conference since 2010 and 2013 respectively. Prof. Tong has over 30 years of teaching, research and administrative experience in universities in the United States and Hong Kong. Prior to taking the office as president of The Hong Kong Polytechnic University from 2009 to 2018, he was a professor and dean of the School of Engineering and Applied Science at The George Washington University. Prof. Tong has been serving as CEO of AMTD Foundation since July 2019, a director of China Association (H.K.) for Science and Society, Ltd. since 2020, and a senior advisor for the Evantage Group since 2021. He is a fellow of the American Society of Mechanical Engineers, the Hong Kong Academy of Engineering Sciences ("**HKAES**") and the International Thermal Conductivity Conference. He served as the president of HKAES in 2018.

Prof. Tong currently serves as an independent non-executive director of several subsidiaries of the Company. He is also an independent non-executive director of Gold Peak Industries (Holdings) Limited (SEHK Stock Code: 40), a non-executive director of Freetech Road Recycling Technology (Holdings) Limited (SEHK Stock Code: 6888), an independent non-executive director of GP Industries Limited (SGX Stock Code: G20) and an independent non-executive director of AMTD IDEA Group (NYSE Stock Code: AMTD, SGX Stock Code: HKB).

Biographical Details of Senior Management

The biographical details of the senior management of the Company who held office as of the Latest Practicable Date are set out below:

Dr. Cui Baoqiu (崔寶秋), aged 52, is a Vice President and the General Manager of the Group Learning Development Department. He has over 20 years of experience in software and Internet development and management. Prior to his current roles, Dr. Cui was the Chairman of Xiaomi's Technology Committee and Vice President and Chief Architect of the AI and Cloud Platform, a team which he founded and led for over six years. Prior to joining Xiaomi in June 2012, Dr. Cui was Principal Engineer of LinkedIn from 2010 to 2012. From 2006 to 2010, Dr. Cui worked as Principal Engineer on the Yahoo Search Technology team. From 2000 to 2006, Dr. Cui was a Senior Engineer and Senior R&D Manager at IBM.

Dr. Cui obtained a PhD degree in Computer Science from the State University of New York at Stony Brook in 2000. He received Master's and Bachelor's degrees in Computer Science from Wuhan University in 1994 and 1991 respectively.

Hong Feng (洪鋒), aged 45, is a Co-founder and a Senior Vice President. He is currently the Chairman of Airstar Digital Technology, the FinTech business of the Group. Prior to joining the Group in December 2010, Hong Feng worked at Google Inc. from May 2005 to December 2010, where his responsibilities included product and engineering management. From May 2001 to May 2005 Hong Feng worked at Siebel Systems (which was subsequently acquired by Oracle America, Inc.) as lead software engineer.

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

Manu Kumar Jain, aged 41, is a Vice President. Manu Kumar Jain joined the Group in 2014 as the head of Xiaomi's business in India. He is now responsible for growth and expansion of Xiaomi business in the emerging markets including Bangladesh, Nepal and Sri Lanka, etc. Before Xiaomi, he worked at McKinsey & Company for 5 years, and co-founded Jabong.com, which is a leading e-commerce company in India.

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

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Lam Sai Wai Alain (林世偉), aged 48, is a Vice President and the CFO of the Group, and the Chief Executive Officer of Airstar Digital Technology. Prior to joining the Group in October 2020, Alain served as a Managing Director and Head of Technology, Media and Telecom in the Investment Banking and Capital Markets department of Credit Suisse between January 2016 and October 2020. Between July 1997 and December 2015, Alain worked at Morgan Stanley in various locations including London, New York, Menlo Park and Hong Kong.

Alain received a Master's degree in Engineering from the University of Oxford.

Lei Jun (雷軍), aged 52, is the Founder, the CEO of the Company, the Chairman and an executive Director, and the chief executive officer of the smart electric vehicle business. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lin Bin (林斌), aged 54, is a Co-founder, the Vice Chairman of the Board and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Liu De (劉德), aged 48, is a Co-Founder, Senior Vice President and Head of Organization Department and an executive Director. For further details, please see the paragraphs headed "Biographical Details and Other Information of the Directors" in this section.

Lu Weibing (盧偉冰), aged 46, is a Partner, Senior Vice President, the President of China Region, the President of International Department and the General Manager of Redmi. He is responsible for sales management of the China Region and International Department, and the brand strategy, product planning, production, sales and marketing of Redmi. Before joining the Group in January 2019, Lu Weibing served as the founder and chief executive officer of Shenzhen Chenyee Technology Co., Ltd. (深圳市誠壹科技有限公司) from June 2017 to December 2018. From April 2010 to June 2017, Lu Weibing served as president at Shenzhen Gionee Communication Equipment Co., Ltd. (深圳市金立通信設備有限公司). Before this, Lu Weibing worked as general manager of the overseas business department at Tianyu Communication Equipment Co., Ltd. (北京天宇朗通通信設備有限公司) from January 2008 to March 2010. Lu Weibing worked as general sales manager at KONKA Communication Co., Ltd. (康佳通信科技有限公司) from July 1998 to December 2007.

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

Wang Chuan (王川), aged 52, is a Co-founder, Senior Vice President and Chief Strategy Officer of the Company. He is responsible for assisting the CEO of the Company in the management and overall planning of the Quality Committee, Technical Committee and Procurement Committee of the Group. Wang Chuan founded Beijing Leishitiandi Electron Technology Co., Ltd. (北京雷石天地電子技術有限公司) in June 2006 and served as the chairman. He has served as a director of iQIYI, Inc. (NASDAQ ticker: IQ) since November 2014.

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

Wang Xiang (王翔), aged 60, is a Partner and the President of the Group and assists the CEO with Group operations. Wang Xiang joined the Group in July 2015 and served as Senior Vice President of the Group and President of International Department, responsible for global expansion, IP strategy, and strategic partnership management. He became the President of the Group in November 2019.

Wang Xiang has more than 30 years of experience in the semiconductor and communications fields. He previously served as Senior Vice President of Qualcomm and President of Qualcomm Greater China, leading Qualcomm's business and operations in Greater China. Prior to that role, Xiang was Vice President of Qualcomm CDMA Technology, responsible for Qualcomm's chipset business and customer services in China. Before joining Qualcomm, he held key positions in sales and marketing of world leading companies, including Motorola Inc., Lucent Technologies, Inc. and Agere Systems Inc.

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

Yan Kesheng (顏克勝), aged 51, is a Vice President, General Manager of the Smart Manufacturing Department. He is responsible for system-level solutions for smart manufacturing. Before joining the Group in October 2010, Yan Kesheng was a senior mechanical design manager at Star Shine Tech Co., Ltd. (星耀無線科技有限公司) from October 2008 to October 2010. From October 2002 to October 2008, Yan Kesheng worked as the chief structural design engineer and project leader at Motorola Technology Co., Ltd. (摩托羅拉科技有限公司). Before this, Yan Kesheng worked as a senior mechanical engineer and design team leader at Vtech Telecommunications Limited (偉易達通訊設備有限公司) from December 1998 to October 2002 and as the chief engineer at Hubei Yichang Nanyuan Vehicle Manufacturing Co., Ltd. (湖北宜昌南苑車輛製造有限公司) from July 1992 to November 1998.

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

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Zeng Xuezhong (曾學忠), aged 48, is a Senior Vice President and President of Smartphone Department, responsible for the research and development and manufacturing of smartphones. He joined the Group in July 2020. Zeng Xuezhong served as senior vice president and president of ZTE Corporation (中興通訊) (SEHK Stock Code: 763; SZSE Stock Code: 000063) in mainland China, executive vice president of ZTE Corporation and chief executive officer of ZTE Terminal. He also held senior management positions such as global executive vice president of Tsinghua Unigroup (紫光集團有限公司), president of Unisplendour Corporation Limited (紫光股份有限公司), chief executive officer of UNISOC (紫光展銳（上海）科技有限公司) and chairman and general manager of Hatchip Communications (匯芯通信技術有限公司). As an excellent manager and expert in communication industry, he has rich practical experience in corporate strategy, innovation and transformation.

Zeng Xuezhong received a Bachelor's degree in Physics and an Executive Master of Business Administration from Tsinghua University (清華大學).

Zhang Feng (張峰), aged 52, is a Partner, a Senior Vice President, and President of Major Appliance and PC Department. Zhang Feng has more than 20 years of experience in the smartphone and telecommunications industry. Prior to joining the Group in September 2016, Zhang Feng founded Jiangsu Zimi Electronic Technology Co., Ltd. (江蘇紫米電子技術有限公司), which became one of the Company's subsidiaries. He held various positions in the Inventec group between September 1993 and February 2012, including as the director of research and development and the general manager of the Inventec group's Nanjing branch.

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

Zhu Dan (朱丹), aged 44, is a Vice President of the Group. Zhu Dan joined the Group in October 2010 and served as the R&D Director of Baseband Department, Senior Director of Product Department, General Manager of Display Touch Department, General Manager of Camera Department, which are all under the Smartphones business, and Vice President of Smartphones business of the Group. He has 18 years of experience in wireless terminal products. Prior to joining the Group, Zhu Dan was the R&D director of baseband department of Firebrand Technology Limited （Firebrand 科技有限公司）from May 2008 to October 2010 and an electronics engineer of Motorola North Asia Center（摩托羅拉北亞中心）from April 2003 to May 2008.

Zhu Dan received a Bachelor's degree and a Master's degree in Automatic Control from Beijing Institute of Technology （北京理工大學）in 2000 and 2003 respectively.

Director's Service Contracts and Appointment Letters

1. Executive Directors

Lei Jun and Lin Bin have each entered into a service contract with our Company on June 19, 2018, and Chew Shou Zi has entered into a service contract with our Company on October 25, 2019. Liu De has entered into a service contract with our Company on March 24, 2021. The initial term of their service contracts shall commence from the date of his appointment and continue for a period of three years (subject always to re-election as and when required under the Articles of Association), be automatically renewed for successive periods of three years until terminated in accordance with the terms and conditions of the service contract or by either party giving to the other not less than three months' prior notice in writing. No annual director's fees are payable to the executive Directors under the current arrangement. Chew Shou Zi has resigned as an executive Director with effect from March 24, 2021.

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

Liu Qin has entered into an appointment letter with our Company on June 10, 2021. The initial term for his appointment letters shall commence from the date of his appointment and shall continue for three years after (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing. No annual director's fees are payable to the non-executive Directors under the current arrangement.

Each of Chen Dongsheng and Wong Shun Tak has entered into an appointment letter with our Company on June 10, 2021, and Tong Wai Cheung Timothy has entered into an appointment letter with our Company on August 23, 2019. The initial term for their appointment letters shall be three years from the date of their appointment (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than three months' prior notice in writing. Under these appointment letters, each of the independent non-executive Directors will receive an annual director's fee of HK$600,000, which in each case has been recommended by the Remuneration Committee and approved by the Board with reference to the independent non-executive Director's qualifications, experience and responsibilities with the Company.

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

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

As of December 31, 2021, the interests and short positions of our Directors or chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

DIRECTOR'S REPORT

1. Interest in Shares

Name of Director or chief executive	Nature of interest[7]	Relevant company	Number and class of securities	Approximate percentage of shareholding in the relevant class of Shares[1]
Lei Jun[2]	Beneficiary, founder and settlor of a Trust(L)	ARK Trust (Hong Kong) Limited	4,172,586,142 Class A Shares	90.06%
			1,881,593,496 Class B Shares	9.24%
	Interest in controlled corporations(L)	Smart Mobile Holdings Limited	4,172,586,142 Class A Shares	90.06%
			1,730,126,824 Class B Shares	8.50%
	Interest in controlled corporations(L)	Smart Player Limited	59,221,630 Class B Shares	0.29%
	Interest in controlled corporations(L)	Team Guide Limited	92,245,042 Class B Shares	0.45%
Lin Bin[3]	Trustee of a trust(L)	Apex Star FT LLC	93,438,272 Class B Shares	0.46%
	Beneficial owner(L)		30,347,523 Class B Shares	0.15%
	Trustee of a trust(L)	Apex Star LLC	460,482,427 Class A shares	9.94%
			1,694,965,388 Class B Shares	8.33%
	Interest in controlled corporations(L)	Bin Lin and Daisy Liu Family Foundation	60,686,600 Class B Shares	0.30%
Liu Qin[4]	Interest in controlled corporations(L)	Morningside China TMT Fund I, L.P.	7 Class B Shares	0.00%
	Founder of a trust (L)		184,466,366 Class B Shares	0.91%
Liu De[5]	Beneficial owners (L)		10,000,000 Class B Shares	0.05%
	Founder of a trust (L)	Lofty Power International Limited	135,871,935 Class B Shares	0.67%
Chen Dongsheng[6]	Interest in controlled corporations(L)	Taikang Asset Management (Hong Kong) Company Limited	2,443,200 Class B Shares	0.01%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2021.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,172,586,142 Class A Shares and the 1,730,126,824 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) the 92,245,042 Class B Shares held by Team Guide Limited under the SFO.

(3) Lin Bin directly holds 30,347,523 Class B ordinary shares. Apex Star FT LLC is controlled by Bin Lin Family Trust. Accordingly, Lin Bin, as the trustee of Bin Lin Family Trust, is deemed to be interested in 93,438,272 Class B ordinary shares held by Apex Star FT LLC under the SFO. Apex Star LLC is controlled by Bin Lin 2021 Trust. Accordingly, Lin Bin as the trustee of Bin Lin 2021 Trust, is deemed to be interested in 1,694,965,388 Class B Shares held by Apex Star LLC under the SFO. Bin Lin and Daisy Liu Family Foundation is controlled by Lin Bin. Accordingly, Lin Bin is deemed to be interested in 60,686,600 Class B ordinary shares held by Bin Lin and Daisy Liu Family Foundation under the SFO. Apex Star LLC is controlled by Bin Lin 2021 A Trust. Accordingly, Lin Bin, as the trustee of Bin Lin 2021 A Trust, is deemed to be interested in 460,482,427 Class A Shares under the SFO.

(4) 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 7 Class B Shares in which TMT General Partner Ltd. is interested. TMT General Partner Ltd. controls Morningside China TMT GP, L.P., which controls Morningside China TMT Fund I, 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. Liu Qin is deemed to be interested in 184,466,366 Class B Shares held by an entity controlled by the trustee of a discretionary trust, of which Mr. Liu is a founder of the discretionary trust, under the SFO.

(5) Liu De directly holds 4,614,780 Class B Shares and has interests in share options granted under Pre-IPO ESOP to subscribe for 5,385,220 Class B Shares. Lofty Power International Limited is controlled by YYL Family Trust. Accordingly, Liu De, as the trustee of YYL Family Trust , is deemed to be interest in 135,871,935 Class B Shares held by Lofty Power International Limited under the SFO. Liu De has been appointed as an executive Director with effect of March 24, 2021.

(6) Taikang Asset Management (Hong Kong) Company Limited is wholly-owned by Taikang Asset Management Company Limited. Taikang Asset Management Company Limited is controlled by Chen Dongsheng. Accordingly, Chen Dongsheng is deemed to be interested in 2,443,200 Class B Shares held by Taikang Asset Management (Hong Kong) Company Limited under the SFO.

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

DIRECTOR'S REPORT

2. Interest in associated corporations

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

Notes:

(1) The calculation is based on the total number of shares of the associated corporations in issue as of December 31, 2021.

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

(3) Smart Mobile Holdings Limited, the holding company of the Company, is wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Lei Jun is the beneficial owner of the entire interest in Smart Mobile Holdings Limited, and is deemed to be interested in the 4,172,586,142 Class A Shares and 1,730,126,824 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.

Save as disclosed above, as of December 31, 2021, so far as is known to any Director or the chief executive of the Company, none of the Directors nor the chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (b) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Permitted Indemnity Provision

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

Such permitted indemnity provision has been in force for the Reporting Period. The Company has taken out liability insurance for our Directors for the Reporting Period.

Directors' Rights to Acquire Shares or Debentures

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

Directors' Interests in Competing Business

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

Liu Qin, our non-executive Director, is a non-executive director of XPeng Inc. (Stock code: 9868), a smart electric vehicles company in China. The Company is of the view that such competing interest will not result in any material conflict of interest because, in his capacity as a non-executive Director, Liu Qin does not participate in the day-to-day management of XPeng Inc. Our Group is capable of carrying on the smart electric vehicles business independently, and at arms length from XPeng Inc.

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

DIRECTOR'S REPORT

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

As of December 31, 2021, so far as the Directors are aware, the following parties (other than our Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares[1]
Class A Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	4,172,586,142	90.06%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	4,172,586,142	90.06%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	4,172,586,142	90.06%
ARK Trust (Hong Kong) Limited[2]	Trustee	4,172,586,142	90.06%
Class B Shares			
Smart Mobile Holdings Limited[2]	Beneficial interest	1,730,126,824	8.50%
Sunrise Vision Holdings Limited[2]	Interest in controlled corporations	1,789,348,454	8.79%
Parkway Global Holdings Limited[2]	Interest in controlled corporations	1,789,348,454	8.79%
ARK Trust (Hong Kong) Limited[2]	Trustee	3,496,280,016	17.17%

Notes:

(1) The calculation is based on the total number of relevant class of Shares in issue as of December 31, 2021.

(2) Smart Mobile Holdings Limited and Smart Player Limited are both wholly-owned by Sunrise Vision Holdings Limited which is in turn wholly-owned by Parkway Global Holdings Limited. Team Guide Limited is wholly-owned by Techno Frontier Investments Limited. The entire interests in Parkway Global Holdings Limited and Techno Frontier Investments Limited are held by ARK Trust (Hong Kong) Limited as trustee for the trusts established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Accordingly, Lei Jun is deemed to be interested in 1) the 4,172,586,142 Class A Shares and the 1,730,126,824 Class B Shares held by Smart Mobile Holdings Limited; and 2) the 59,221,630 Class B Shares held by Smart Player Limited and 3) 92,245,042 Class B Shares held by Team Guide Limited under the SFO. ARK Trust (Hong Kong) Limited is also a trustee for a number of trusts and therefore is deemed to be interested in the 1,614,686,520 Class B shares held by the trusts.

Save as disclosed above, as of December 31, 2021, no person, other than the Directors whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures of the Company or any of its Associated Corporations" above, had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Contracts with Controlling Shareholders

No contract of significance has been entered into among the Company or any of its subsidiaries and the Controlling Shareholders during the Reporting Period.

Management Contracts

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Reporting Period.

Connected Transactions

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

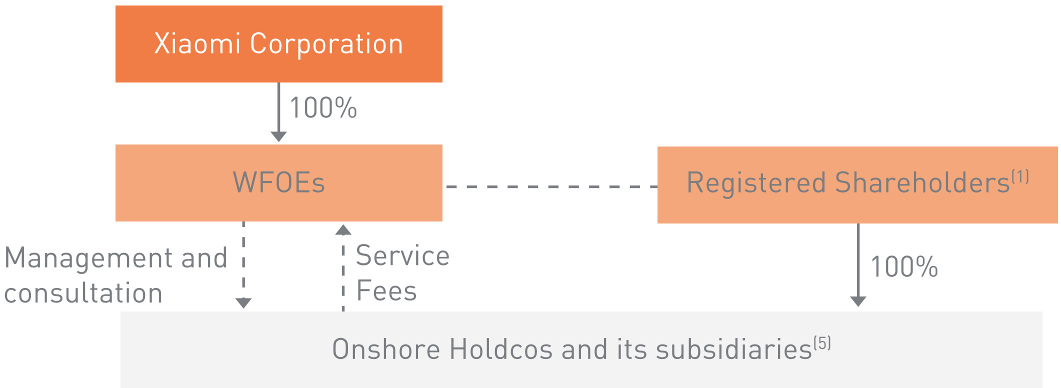
1. Contractual Arrangements

(1) Contractual Arrangements in Place

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

DIRECTOR'S REPORT

The following simplified diagram illustrates the Contractual Arrangements that were in place as of December 31, 2021:



Notes:

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

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

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

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

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

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

(vi) Xiaomi Pictures is owned by Li Wanqiang (黎萬強) as to 87.92%, Hong Feng (洪鋒)as to 10.07% and Liu De (劉德) as to 2.01%.

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

(viii) Youpin Information Technology is owned by Lei Jun (雷軍) as to 70%, Hong Feng (洪鋒) as to 10%, Liu De (劉德) as to 10% and Li Wanqiang (黎萬強) as to 10%.

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

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

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

(5) These include certain companies which do not currently carry out any business operations but are intended to carry out businesses which are subject to foreign investment restrictions in accordance with the Special Administrative Measures on Access to Foreign Investment (Negative List) (2021 Edition) (外商投資准入特別管理措施(負面清單) (2021 年版)).

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

a) Exclusive Business Cooperation Agreements

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

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

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

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

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

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

(vi) providing business management consultation;

(vii) providing marketing and promotional services;

(viii) providing customer order management and customer services;

DIRECTOR'S REPORT

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

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

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

b) Exclusive Option Agreements

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

c) Equity Pledge Agreements

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

d) Powers of attorney

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

e) Loan Agreements

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

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

For the Reporting Period, none of the Contractual Arrangements had been unwound on the basis that none of the restrictions that led to the adoption of the Contractual Arrangements had been removed. As of December 31, 2021, we had not encountered interference or encumbrance from any PRC governing bodies in operating our businesses through our Consolidated Affiliated Entities under the Contractual Arrangements.

The revenue of the Consolidated Affiliated Entities amounted to RMB9,432 million for the Reporting Period, representing an decrease by 4.4% from RMB9,865 million for the year ended December 31, 2020. For the Reporting Period, the revenue the Consolidated Affiliated Entities accounted for approximately 2.9% of the revenue of our Group (2020: 4.0%).

DIRECTOR'S REPORT

(2) Reasons for Adopting the Contractual Arrangements

Our (i) operation of online culture business; (ii) Internet audio-visual program service; (iii) Internet publication business and (iv) news business conducted by our Consolidated Affiliated Entities are considered as "prohibited" under the Special Administrative Measures on Access to Foreign Investment (Negative List) (2021 Edition) (外商投資准入特別管理措施（負面清單）（2021 年版））(the "**Negative List**") where foreign investment is strictly prohibited (collectively, the "**Prohibited Business**"). Our (i) e-commerce marketplace business; (ii) cloud storage service and other value-added telecommunication service business; and (iii) resales of mobile communication products operated by our Consolidated Affiliated Entities are considered as "restricted" under the Negative List where foreign investors are restricted from holding more than 50% equity interests in companies providing such services or shall meet certain qualification requirements (collectively, the "**Restricted Business**", together with the Prohibited Business, the "**Relevant Businesses**"). For details of the foreign investment restrictions relating to the Contractual Arrangements, please refer to the sections headed "Contractual Arrangements – Qualification Requirements under the FITE Regulations" and "Contractual Arrangements – Development in Legislation on Foreign Investment in Mainland China" on pages 281 to 282 and pages 293 to 298 of the Prospectus. Since investment in the Relevant Businesses in which we currently and may operate are subject to restrictions under current mainland China laws and regulations, as advised by our PRC legal adviser, we determined that it was not viable for our Company to hold our Consolidated Affiliated Entities directly through equity ownership. Instead, we decided that, in line with common practice in industries in mainland China subject to foreign investment restrictions, we would gain effective control over, and have the right to receive all the economic benefits generated by the Relevant Businesses currently operated by our Consolidated Affiliated Entities through the Contractual Arrangements between the WFOEs, on the one hand, and our Consolidated Affiliated Entities and the Registered Shareholders, on the other hand.

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

(3) **Risks relating to the Contractual Arrangements**

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

- the PRC government may find that the agreements that establish the structure for operating our business do not comply with PRC laws and regulations, which may subject us to severe penalties or be forced to relinquish our interests in those operations;
- substantial uncertainties exist with respect to the interpretation and implementation of Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法) and the Implementation Regulations for the Foreign Investment Law of the People's Republic of China (中華人民共和國外商投資法實施條例) and how they may impact the viability of our current corporate structure, corporate governance and business operations;
- the Contractual Arrangements may not be as effective in providing operational control as direct ownership and our Consolidated Affiliated Entities and the Registered Shareholders may fail to perform their obligations under the Contractual Arrangements;
- we may lose the ability to use, or otherwise benefit from, the licenses, approvals and assets held by our Consolidated Affiliated Entities, which could render us unable to conduct some or all of our business operations and constrain our growth;
- the Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and any additional taxes could substantially reduce our consolidated profit and value of your investment;
- the equity holders, directors and executive officers of the Consolidated Affiliated Entities, as well as our employees who execute other strategic initiatives, may have potential conflicts of interest with our Company;
- certain of the terms of the Contractual Arrangements may not be enforceable under the PRC laws and regulations; and
- our exercise of the option to acquire equity ownership of our Consolidated Affiliated Entities may subject us to certain limitations and substantial costs.

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

DIRECTOR'S REPORT

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

- major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities, where necessary, have been submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- our Board has reviewed the overall performance of and compliance with the Contractual Arrangements for the Reporting Period;
- our Company has disclosed the overall performance and compliance with the Contractual Arrangements in our annual reports; and
- our Company has engaged external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and our Consolidated Affiliated Entities to deal with specific issues and matters arising from the Contractual Arrangements.

(4) Requirement related to Contractual Arrangements (other than relevant foreign ownership restrictions) as of December 31, 2021

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

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

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

- 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

- 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.

(5) Listing Rules Implications and Waivers from the Stock Exchange

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

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

DIRECTOR'S REPORT

Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange subject however to the following conditions:

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

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

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

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

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

(6) Confirmation from Independent Non-executive Directors

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

(i) the transactions carried out during the Reporting Period have been entered into in accordance with the relevant provisions of the Contractual Arrangements;

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

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

(7) **Confirmations from the Company's Independent Auditor**

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

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

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

(iii) nothing has come to their attention that causes the Auditor to believe that dividends or other distributions had been made by our Consolidated Affiliated Entities to the holders of their equity interests which were not otherwise subsequently assigned or transferred to our Group.

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

2. Other Connected Transactions

As disclosed in the Prospectus, the following transaction of the Group constituted continuing connected transactions for the Company for the Reporting Period.

(1) **The 2020 XMF Framework Agreement**

On December 30, 2020, our Company (for itself and on behalf of the XM Group) and Xiaomi Finance (for itself and on behalf of the Xiaomi Finance Group) agree to renew the framework agreement entered into between the Company and Xiaomi Finance on June 18, 2018 (the "**2018 XMF Framework Agreement**") by entering into a framework agreement in relation to the provision to each other, or by one to the other, of (i) supply of products; (ii) data sharing and collaboration; (iii) intellectual property licensing; (iv) payment and settlement services; (v) marketing services; (vi) comprehensive support services; and (vii) financial services. (the "**2020 XMF Framework Agreement**")

Among all the transactions under the 2020 XMF Framework Agreement, (i) data sharing and collaboration; (ii) intellectual property licensing; (iii) provision of marketing services by the Xiaomi Finance Group to the XM Group; (iv) provision of comprehensive support services by the Xiaomi Finance Group to the XM Group and (v) provision of financial services by the Xiaomi Finance Group to the XM Group are fully-exempted continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTOR'S REPORT

The annual cap and actual transaction amounts for the non-exempted continuing connected transactions under the 2020 XMF Framework Agreement for the Reporting Period are set out as follows:

No.	Transactions	Annual cap for the year ended December 31, 2021 (RMB million)	Actual transaction amounts for the year ended December 31, 2021 (RMB million)
1.	Supply of products by the XM Group to the Xiaomi Finance Group	197	3
2.	Provision of payment and settlement services by the Xiaomi Finance Group to the XM Group	218	95
3.	Provision of marketing services by the XM Group to the Xiaomi Finance Group	387	6
4.	Provision of comprehensive support services by the XM Group to the Xiaomi Finance Group	280	92
5.	Provision of financial services by the XM Group to the Xiaomi Finance Group (excluding the XMF Restructuring Loans)	9,528	3,237

The 2020 XMF Framework Agreement is for a term of three years from January 1, 2021 to December 31, 2023 (both days inclusive).

We have agreed to treat members of the Xiaomi Finance Group as connected subsidiaries (as defined in Rule 14A.16 of the Listing Rules) and thus the intra-group transactions involving the XM Group and the Xiaomi Finance Group under the 2020 XMF Framework Agreement will constitute connected transactions under the Listing Rules.

(2) Confirmation from Independent Non-executive Directors

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

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

(ii) on normal commercial terms or better; and

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

(3) Confirmations from the Company's Independent Auditor

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

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the Reporting Period:

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

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

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

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

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

DIRECTOR'S REPORT

Major Customers and Suppliers

For the Reporting Period, the five largest customers of the Group accounted for approximately 20.1% of the Group's total revenues while the largest customer of the Group accounted for approximately 13.7% of the Group's total revenues. In addition, for the Reporting Period, the five largest suppliers of the Group accounted for approximately 36.4% of the Group's total purchase amounts while the largest supplier for the Reporting Period, accounted for approximately 12.5% of our total purchase amount.

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

Pre-Emptive Rights

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

Tax Relief

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

Weighted Voting Rights

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

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

As of December 31, 2021, the WVR Beneficiaries were Lei Jun and Lin Bin. Lei Jun beneficially owns 4,172,586,142 Class A Shares, representing approximately 62.6% of the voting rights in the Company with respect to shareholder resolutions relating to matters other than the Reserved Matters. The Class A Shares are held by Smart Mobile Holdings Limited, a company indirectly wholly-owned by a trust established by Lei Jun (as settlor) for the benefit of Lei Jun and his family. Lin Bin beneficially owns 460,482,427 Class A Shares, representing approximately 6.9% 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 Apex Star LLC, a company controlled by a trust of which Lin Bin is the trustee.

Class A Shares may be converted into Class B Shares on a one to one ratio. As of December 31, 2021, upon the conversion of all the issued and outstanding Class A Shares into Class B Shares, the Company will issue 4,633,068,569 Class B Shares, representing approximately 22.8% of the total number of issued and outstanding Class B Shares or approximately 18.5% of the issued share capital of the Company.

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

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

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

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

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

Corporate Governance

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

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 103 to 121 of this annual report.

DIRECTOR'S REPORT

Environmental Policies and Performance

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

For details of the Company's environmental policies and performance, please refer to the Environmental, Social and Governance Report on pages 122 to 178 of this annual report.

Final Dividend

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

Use of Net Proceeds

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

The 2020 Placing and Subscription was completed on December 4, 2020. An aggregate of 1,000,000,000 placing shares have been successfully placed to not less than six independent placees and accordingly 1,000,000,000 subscription shares were allotted and issued by the Company to Smart Mobile Holdings Limited.

The net proceeds raised from the 2020 Placing and Subscription were approximately US$3.1 billion. The Company intends to use the net proceeds for (a) strengthening our working capital for business expansion; (b) investments to increase market share in key markets; (c) strategic ecosystem investments and (d) other general corporate purposes. As of December 31, 2021, approximately US$2,966.8 million of the net proceeds of the completion of the 2020 Placing and Subscription had been utilized and US$133.2 million remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within one year. For further details, please refer to the Company's announcements dated December 2, 2020.

As of December 31, 2021, the Company had utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the 2020 Placing and Subscription (US$ million)	Utilization as at December 31, 2020 (US$ million)	Unutilized as at December 31, 2020 (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)
Strengthen our working capital for business expansion	930.0	112.9	817.1	930.0	—
Investments to increase market share in key markets	930.0	197.8	732.2	930.0	—
Strategic ecosystem investments	930.0	60.9	869.1	796.8	133.2
Other general corporate purposes	310.0	39.1	270.9	310.0	—
Total	**3,100.0**	**410.7**	**2,689.3**	**2,966.8**	**133.2**

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

On December 17, 2020, Xiaomi Best Time International Limited completed the issuance of the 2027 Bonds, of which the net proceeds amounted to approximately US$889.6 million. The Company intends to use the net proceeds for (a) strengthening our working capital for business expansion; (b) investments to increase market share in key markets; (c) strategic ecosystem investments and (d) other general corporate purposes. As of December 31, 2021, approximately US$851.3 million of the net proceeds of the issue of the 2027 Bonds had been utilized and US$38.3 million remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company will expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within one year. For further details, please refer to the Company's announcements dated December 2, 2020.

DIRECTOR'S REPORT

As of December 31, 2021, the Company had utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the 2027 Bonds (US$ million)	Utilization as at December 31, 2020 (US$ million)	Unutilized as at December 31, 2020 (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)
Strengthen our working capital for business expansion	266.9	32.4	234.5	266.9	–
Investments to increase market share in key markets	266.9	56.8	210.1	266.9	–
Strategic ecosystem investments	266.9	17.5	249.4	228.6	38.3
Other general corporate purposes	88.9	11.1	77.8	88.9	–
Total	889.6	117.8	771.8	851.3	38.3

3. Use of Net Proceeds from Issue of the 2031 Bonds

On July 14, 2021, Xiaomi Best Time International Limited completed the issuance of the 2031 Bonds, of which the net proceeds amounted to approximately US$789.0 million. The Company intends to use the net proceeds for general corporate purposes. As of December 31, 2021, approximately US$561.0 million of the net proceeds of the issue of the 2031 Bonds had been utilized and US$228.0 million remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed, and the Company expects to fully utilize the residual amount of the net proceeds in accordance with such intended purposes within two year. For further details, please refer to the announcements of the Company published on July 6, 2021, July 8, 2021 and July 14, 2021 and the circular of the Company published on July 15, 2021.

As of December 31, 2021, the Company had utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the 2031 Bonds (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)
General corporate purposes	789.0	561.0	228.0
Total	**789.0**	**561.0**	**228.0**

4. Use of Net Proceeds from Issue of the Green Bonds

On July 14, 2021, Xiaomi Best Time International Limited completed the issuance of the Green Bonds, of which the net proceeds amounted to approximately US$392.8 million. The Company intends to use this amount or an equivalent amount within 36 months to finance or refinance, in whole or in part, one or more of our new or existing eligible projects, pursuant to our Green Finance Framework.

As of December 31, 2021, approximately US$109.3 million of the net proceeds of the issue of the Green Bonds had been utilized for eligible projects including eco-efficient and circular economy adapted products, production technologies and processes, energy efficiency, green buildings, clean transportation, pollution prevention and control, and renewable energy, in accordance with our Green Finance Framework, and US$283.5 million remained unutilized. There has been no change in the intended use of net proceeds as previously disclosed. For further details, please refer to the announcements of the Company published on July 6, 2021, July 8, 2021 and July 14, 2021 and the circular of the Company published on July 15, 2021.

As of December 31, 2021, the Company had utilized the net proceeds as set out in the table below:

	Allocation of net proceeds from Issue of the Green Bonds (US$ million)	Utilization as at December 31, 2021 (US$ million)	Unutilized as at December 31, 2021 (US$ million)
Eligible projects	392.8	109.3	283.5
Total	**392.8**	**109.3**	**283.5**

DIRECTOR'S REPORT

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group, review and approve connected transactions and to advise the Board. As of December 31, 2021, the Audit Committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak. Mr. Wong Shun Tak is the chairman of the Audit Committee.

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

Material Litigation

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

Public Float

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

Compliance with Relevant Laws and Regulations

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

Auditor

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

Events after the Reporting Period

Save as disclosed above, there has been no other significant events that might affect the Group since the end of the Reporting Period and up to the date of this annual report.

By order of the Board
Lei Jun
Chairman

Hong Kong, March 22, 2022

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

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

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

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

Compliance with the Model Code for Securities Transactions by Directors

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

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

Board of Directors

Board Composition

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

Executive Directors
Lei Jun *(Chairman of the Board and Chief Executive Officer)*
Lin Bin *(Vice Chairman of the Board)*
Chew Shou Zi *(resigned from the Board with effect from March 24, 2021)*
Liu De *(appointed to the Board with effect from March 24, 2021)*

CORPORATE GOVERNANCE REPORT

Non-executive Director:
Liu Qin

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

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

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

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

Responsibilities and Delegation

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

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

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

The Directors have disclosed to the Company details of other offices held by them.

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

Chairman and Chief Executive Officer

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

Appointment and Re-Election of Directors

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

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

Continuous Professional Development of Directors

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

CORPORATE GOVERNANCE REPORT

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

Pursuant to code provision C.1.4 of the CG Code, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

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

Name of director	Type of continuous professional development training[Notes]
Lei Jun	A & B
Lin Bin	A & B
Chew Shou Zi[1]	A & B
Liu De[1]	A & B
Liu Qin	A & B
Chen Dongsheng	A & B
Wong Shun Tak	A & B
Tong Wai Cheung Timothy	A & B

Notes:

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

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

(1) Chew Shou Zi has resigned as an executive Director with effect from March 24, 2021 and Liu De has been appointed as an executive Director with effect from March 24, 2021.

Attendance Records of Directors

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

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Corporate Governance Committee	Nomination Committee	Remuneration Committee	General Meetings
Lei Jun	4/4	—	—	—	1/1	1/1
Lin Bin	4/4	—	—	1/1	—	1/1
Chew Shou Zi[1]	1/1	—	—	—	—	—
Liu De[2]	3/3	—	—	—	—	1/1
Liu Qin	4/4	4/4	—	—	—	1/1
Chen Dongsheng	4/4	4/4	2/2	1/1	1/1	1/1
Wong Shun Tak	4/4	4/4	2/2	1/1	1/1	1/1
Tong Wai Cheung Timothy	4/4	—	2/2	—	—	1/1

Notes:

(1) Chew Shou Zi resigned as an executive Director with effect from March 24, 2021. During the period from January 1, 2021 up to his resignation date, one regular Board meeting was held.

(2) Liu De was appointed as an executive Director with effect from March 24, 2021. During the period from his appointment up to December 31, 2021, three regular Board meeting was held.

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

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

CORPORATE GOVERNANCE REPORT

Board Committees

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

Audit Committee

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

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

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

- Reviewed the 2020 annual report, including the Corporate Governance Report, the Environmental, Social and Governance Report, Directors' Report and the financial statements.
- Reviewed the audited annual results of the Group for the Reporting Period.
- Reviewed the unaudited first quarterly results of the Group for the three months ended March 31, 2021.
- Reviewed the unaudited interim results of the Group for the three and six months ended June 30, 2021.
- Reviewed the unaudited third quarterly results of the Group for the three and nine months ended September 30, 2021.
- Discussed matters with respect to effectiveness of the Company's financial reporting system, the system of internal control in operation, risk management system and associated procedures within the Group with senior management members, internal auditors and the Auditor.
- Reviewed the plans, resources and work of the Company's internal auditors.

- Reviewed the continuing connected transactions of the Group carried out during the Reporting Period.

- Reviewed the risk management and internal control systems of the Group.

- Discussed and made recommendation on the re-appointment of the Auditor.

- Reviewed the independence, terms of engagement and remuneration of PricewaterhouseCoopers for annual audit for the Reporting Period.

- Reviewed the status of compliance with the CG Code, the Listing Rules and relevant laws by the Group.

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

Corporate Governance Committee

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

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

- Reviewed and monitored whether the Company is operated and managed for the benefits of all its Shareholders;

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

Nomination Committee

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

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

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

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

- Recommended the re-election of the retiring Directors at the 2021 annual general meeting of the Company.

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

A Board diversity policy was adopted by the Company, pursuant to which the Nomination Committee is responsible for reviewing the Board composition by considering a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience. The Nomination Committee would discuss periodically and, where necessary, agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth.

CORPORATE GOVERNANCE REPORT

The Company is also committed to ensure that recruitment and selection practices at all levels are appropriately structured so that a diverse range of candidates are considered. The Nomination Committee shall report its findings and make recommendation to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile.

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

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

Remuneration Committee

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

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

- Reviewed the remuneration policy and the remuneration packages of the Directors and senior management of the Company.
- Reviewed and recommended to the Board the grant of share awards to certain senior management of the Company.
- Reviewed and recommended to the Board the remuneration packages of the new director appointed during the Reporting Period.
- Reviewed and recommended to the Board the service contracts of Liu Qin, Chen Dongsheng and Wong Shun Tak.

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

Annual Remuneration	Number of individuals
HK$0 to HK$10,000,000	6
HK$10,000,001 to HK$30,000,000	8
HK$30,000,001 to HK$100,000,000	4
HK$100,000,001 to HK$150,000,000	0
HK$150,000,001 to HK$300,000,000	1

Note:

(1) Senior management as of December 31, 2021.

Further details of the remuneration for the Reporting Period are set out in Note 10 to the consolidated financial statements contained in this annual report.

Risk Management and Internal Controls

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

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The Board has the overall responsibility for evaluating and determining the nature and extent of the risk of failure to achieve the Company's strategic objectives, as well as establishing and maintaining effective risk management and internal control systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

Organization principles:

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

The First Line of Defense — Management and Operation:

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

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

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

Note:

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

The Third Line of Defense — Internal Audit:

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

The Internal Audit teams directly report to the Audit Committee.

Risk Management Process:

Through conducting internal control assessments regularly to identify risks that potentially impact the business of the Group.

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

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

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

Significant risks of the Company:

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

1. **Global Economy, Geopolitics and the COVID-19 Pandemic:**

   Uncertainties arising from global economic and geopolitics and the continuation of COVID-19 pandemic made it more challenging for the Company to achieve its business, operational and financial goals. The Company conducts business globally and provides products and services. The Company continuously improves the ability to resist external risks, strictly monitors the supply of supply chain and strictly abides by the laws and regulations of

CORPORATE GOVERNANCE REPORT

various markets and countries around the world to ensure our business operation in different countries globally complies with the laws and regulations. In addition, under the impact of the global economy and the pandemic, the Company faces increasing challenges in the investment of smart electric vehicle business.

2. Product and service quality:

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

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

3. Supply chain:

Our core products are highly relied on various suppliers who provide raw materials and components. In particular, for certain high-end products (e.g. chip), the sources of raw materials and components are limited. Sourcing from a single region or from a single vendor can happen as well. Products are likely subject to geopolitics, transportation delay or constrained, and subject to pricing inflation of components due to shortages or underlying commodity pricing fluctuations. The majority of our suppliers' production lines are concentrated in China. Our global operation including freight, pricing and timely delivery is subject to risk due to this situation.

We evaluate various risks, such as global macroeconomic factors, fiscal policies of different countries, tariff policies, foreign exchange rates, inflation and other factors that may affect our supply chain, and actively seeks ways to increase the strength of our supply chain . We continue to diversify supplier source to reduce the risks of uncertainty brought by single source. We expand the capacity of factories in countries like India and Indonesia, to address the potential risks associated with a single production base. We establish an alarm system for force majeure events such as natural disasters and public health matters. We set up contingency plans for these events in order to minimize their impact on our supply chain.

4. Information security and privacy:

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

The Company's Data Security and Privacy sub-Committee, which was established under our Technology Committee, is responsible for formulating a data classification system and implementing security measures. It is tasked with effectively managing privacy risks through deploying an online privacy assessment system to ensure that all major changes undergo risk assessment. The Company has established a surveillance system and feedback process to monitor data security incidents and minimize the impact of these incidents on the Company. The Company has also set up a comprehensive training program on data security and privacy for employees, including orientation training for new employees, professional sequence security skills training and system training for information representatives of the business departments.

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

Directors' Responsibilities in Respect of the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the Reporting Period.

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

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

The statement of the Auditor about their reporting responsibilities on the Company's consolidated financial statements for the Reporting Period is set out under the section headed "Independent Auditor's Report" in this annual report.

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Auditor's Remuneration

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

Type of services provided by the Auditor	Fees paid/payable (RMB'000)
Audit services	56,116
Non-audit services	34,920
Total	**91,036**

Joint Company Secretaries

Liu Hao, the joint company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. Liu Hao joined our Group in August 2018 and is the Company's legal director overseeing the legal and compliance affairs in relation to the Company's corporate governance, capital markets, mergers and acquisitions and corporate finance activities. Before joining our Group, he worked at Jingtian & Gongcheng Law Firm in Beijing where he accumulated extensive working experience in corporate governance, capital markets, mergers and acquisitions and corporate finance. He has previously also worked at another company listed on the Main Board of The Stock Exchange of Hong Kong Limited, where he was responsible for legal compliance. Liu Hao holds a bachelor's degree in law and a master's degree in civil and commercial law, as well as a PRC legal professional qualification. Liu Hao has been appointed as joint company secretary with effect from March 25, 2022.

So Ka Man of Tricor Services Limited, an external service provider, has been acted as the company secretary of the Company during the Reporting Period. The primary contact person at the Company is Liu Hao.

Steve Lin has resigned as joint company secretary with effect from February 26, 2021. Chan Wing Ki has been appointed as joint company secretary with effect from February 26, 2021 and has resigned as joint company secretary with effect from April 30, 2021.

During the Reporting Period, So Ka Man has taken the required number of hours of relevant professional trainings.

Communications with Shareholders and Investors

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

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

During the Reporting Period, the Company held an annual general meeting on June 10, 2021. Notice of the meeting was sent to the Shareholders on April 27, 2021, at least 20 clear business days before the meeting. The chairman of the Board and the chairmen of each of the Audit Committee, the Corporate Governance Committee, the Nomination Committee and the Remuneration Committee attended the annual general meeting and were available to answer any questions raised by the Shareholders. A representative of the Auditor also attended to answer any questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

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

The Company maintains a website at "www.mi.com" as a communication platform with the Shareholders and investors, where information on the Company's announcement, financial information and other information are available for public access. Shareholders and investors may send written enquiries or requests to the Company, for the attention of the Board of Directors, as follows:

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

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

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

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

With respect to Code Provision E.1.1 of the CG Code, the Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

Shareholders' Rights

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

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

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

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

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

During the Reporting Period, there was no significant change in the memorandum and articles of association of the Company.

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

Events after the Reporting Period

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

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About the Report

This is the 4th Environmental, Social and Governance (ESG) Report published by Xiaomi Corporation ("Xiaomi," the "Group," the "Company," or "we"). This Report sets out to present, on an objective and fair basis, the ESG performance of Xiaomi Corporation and its subsidiaries in 2021. The Report was prepared in compliance with the disclosure requirements of *the Environmental, Social and Governance Reporting Guide* (the "ESG Guide" or "the Guide") as depicted in *Appendix 27 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*, published by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and in reference with the Core Option of the *Global Reporting Initiative (GRI) Sustainability Reporting Standards*, the *Hardware — Sustainability Accounting Standard* of the Sustainability Accounting Standards Board (SASB), and the *Recommendations of the Task Force on Climate-related Financial Disclosures* (TCFD). It is recommended that this Report is read in conjunction with the section titled "Corporate Governance Report" as contained in the Group's Annual Report.

In preparation for the Report, we strove to ensure that the information disclosed herein follow the four reporting principles, namely, materiality, quantitative, balance and consistency.

The reporting period of this Report is from January 1, 2021 to December 31, 2021 ("this year"). To enhance the comparability and completeness of the Report, the reporting period for part of the content is appropriately extended forward or backward.

The source of information and cases within this Report were mainly derived from the Company's statistical reports, relevant documents and internal communication documents in 2021. The Company undertakes that there are no false records or misleading statements in this Report, and takes responsibility for the authenticity, accuracy and completeness of the information in this Report.

This Report is published and available in both traditional Chinese and English. If there is any discrepancy between the texts, the Chinese version shall prevail for all purposes.

1. Governance

1.1 Board Statement

The Board of Directors of Xiaomi (the "Board") believes that the establishment and improvement of ESG management framework is beneficial to the sustainability of the Company, and appoints that the Corporate Governance Committee (the "CGC"), on behalf of the Board and assisted by the Group's Sustainability Committee (the "SC"), to oversee ESG issues at Xiaomi.

Xiaomi has formulated effective strategies and policies to balance our environmental and social impact and business sustainability of the Company. These strategies and policies are subject to the Board's periodic review to examine and ensure their consistency with the Group's business strategy.

We conduct materiality assessments on ESG topics on a regular basis. The process and results of the assessment are detailed in the "Stakeholder Engagement" and "Materiality Assessment" sections of the Group's annual ESG reports and reviewed by the Board. The Audit Committee assists the Board by leading the management team in overseeing the Company's risk management as well as the design, implementation and supervision of our internal control system, to manage major ESG risks, including compliance risks, supply chain risks, product and service quality risks, and information security and privacy risks, all of which are detailed in the Corporate Governance Report of the Group's Annual Report under the review by the Board.

This year as reported, we have set environmental targets for our business operations, aiming to reduce pollutants and consumption generated from operations at our office parks, which have been reviewed and discussed by the Board.

This Report provides a detailed disclosure of the ESG issues hereinbefore and was reviewed and approved by the Board on March 22, 2022.

1.2 ESG Management

1.2.1 ESG Strategy

We view ESG management as part of our corporate strategy, and has fully integrated it into our business operations and management. We identify material ESG risks through risk assessment and control practices and proactively manage them, to guide the sustainable development of our business operations. Additionally, we strive to promote our ESG framework among our upstream and downstream stakeholders, to foster long-term sustainability across the value chain. We are also committed to communicating with a broad range of stakeholders our sustainability philosophy via our products and services. We attach great importance to the impact of climate change on our business, and how we mitigate such impact, by taking actions to reduce greenhouse gas (GHG) emissions generated from our products and operations. We also start to set targets to reduce GHG emissions. During the year, we executed our ESG strategy across a wide range of areas, including environmental issues, supply chain, employees, quality, business ethics and social responsibility.

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1.2.2 ESG Management Framework

Xiaomi continues to optimize our ESG governance at all levels of the Company, including the Board, management and working level. The Board has appointed the CGC, on behalf of the Board, to oversee ESG issues at Xiaomi. In 2021, we established the Sustainability Committee comprising more than 10 general managers across products, sales and general functions, and chaired by our President, to make decisions on key sustainability action plans. The SC is responsible for formulating ESG action plans and objectives, communicating to relevant divisions regarding plans and objectives, and tracking execution progress. The ESG working group is responsible for coordinating internal and external resources to ensure effective implementation of the action plans, and holding quarterly meetings to share and discuss sustainability issues and relevant business impact. The SC reports the Group's ESG performance to the CGC on a semi-annual basis, including an overview of progress and accomplishments, and proposed action plans and targets for the next period.

1.3 Stakeholder Engagement

Xiaomi actively listens and responds to the expectations of our stakeholders. To that end, we recognize and engage with a number of key stakeholders who are materially relevant to our business, including governments and regulators, shareholders and investors, consumers/users, employees, suppliers/partners, media and non-governmental organizations (NGOs), and communities. We have established diversified communication channels and mechanisms with our stakeholders in order to ensure timely and effective stakeholder engagement.

Key Stakeholders	Major Communication Channels
Governments and regulators	Regular inquiries, policy consultation, high-level meetings, event reporting, on-site inspection, information disclosure, government conferences
Shareholders and investors	Annual general meetings, annual reports/interim reports, earnings announcements, investor meetings, Investor Day, news releases/announcements, surveys and questionnaires
Consumers/users	Official website, social networking platforms such as MIUI forum, instant messaging software, customer service hotlines, press conferences, social media, activities and programs
Employees	Employee communication meetings, employee feedback channels, internal communication software, internal surveys
Suppliers/partners	Supplier conferences, distributor conferences, meetings with partners, business negotiations, on-site research, project cooperation
Media and NGOs	Social media, press conferences and news releases, media interviews, surveys and questionnaires
Communities	Community activities, press conferences, charitable activities, social media

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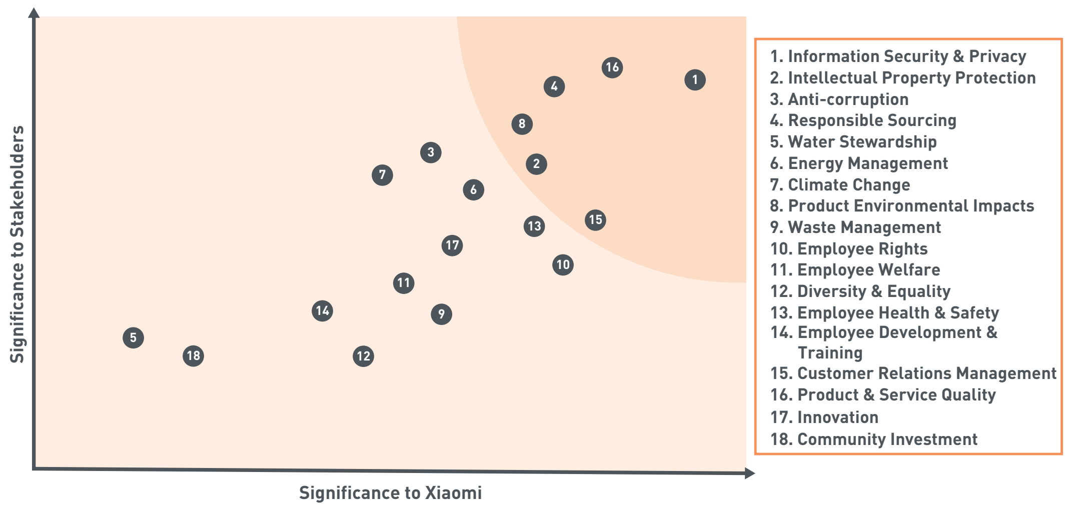
1.4 Materiality Assessment

In 2021, through continued effective engagement with our key stakeholders, we conducted a materiality assessment, along with the findings from our surveys, in accordance with the 12 ESG aspects outlined in the *ESG Guide*, as well as leading ESG rating system such as MSCI ESG Ratings, S&P Global Corporate Sustainability Assessment (CSA), Carbon Disclosure Project (CDP), Sustainalytics, and EcoVadis. We further broke down these aspects into 18 sub-topics, for a better and more comprehensive understanding of various stakeholders' expectations and feedback on our ESG activities. The assessment serves as an important reference for our ESG activities and helps us to better respond to our stakeholders' requests.

We identified the following issues as "highly material": information security and privacy, product and service quality, responsible sourcing, customer relationship management, product environmental impacts, intellectual property protection. "Material" issues include employee health and safety, energy management, employee rights, anti-corruption, climate change, innovation, waste management, employee welfare, diversity and equality, employee development and training, community investment, and water stewardship. We will discuss each of these issues in the following chapters of this Report.



2. Environmental

Healthy environment is fundamentally essential for humanity to survive and thrive, also vital to sustainable economic and social development. We firmly believe that environmental protection is an integral part of our corporate responsibility. As a global company, Xiaomi is committed to mitigating the environmental impacts caused by our products and operations.

Since 2020, we started to manage our environmental impacts in accordance with ISO14001 Environmental Management System. We have been carrying out regular identification, evaluation and review on significant environmental aspects throughout product life cycle and operation process, and addressing these impacts through management measures and technology advancement.

In 2021, we aim to mitigate our environmental impacts from two areas as set out in the followings:

Area	Key Focus
Product Life Cycle	Product materials
	Manufacturing engineering
	Product packaging
	Warehousing and logistics
	Product energy use
	Product end-of-life management
Business Operation	Energy
	Water
	Waste

In 2021, we have set the following environmental targets for our operations:

Area	Targets
Energy	The energy consumption per capita of self-operated office parks will be reduced by 5% in 2026, against the 2020 level.
GHG	The GHG emissions per capita of our self-operated office parks will be reduced by 4.5% in 2026, against the 2020 level.
Water	Water consumption per capita of self-operated office parks will be no higher than that of 2020 level.
Waste	Non-hazardous wastes from self-operated office parks are separately managed by categorization.
	All hazardous wastes are handled by qualified third-party organizations.

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We believe in leading by example. To support Xiaomi's green and sustainability vision, as well as our business strategy, we develop the Green Finance Framework, which follows the *Green Bond Principles 2021* by the *International Capital Market Association* (*ICMA GBP*) and *Green Loan Principles 2021* (*GLP*) by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association. In 2021, we issued US$400 million senior green bonds for eligible projects under our Green Finance Framework that fall within the categories stated below:

Eligible Project Category
Eco-efficient and Circular Economy Adapted Products, Production Technologies and Process
Energy Efficiency
Green Buildings
Clean Transportation
Pollution Prevention and Control
Renewable Energy

We will report our funds allocation and environmental impacts of eligible projects on an annual basis.

2.1 Climate Change Response

13 CLIMATE ACTION
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
17 PARTNERSHIPS FOR THE GOALS

Climate change not only threatens the global ecosystem and natural environment, but also impacts companies and their operations worldwide. In our view, a corporate citizen shall take relentless efforts to address this environmental challenge. To this end, we actively identify and manage climate change risks while seizing opportunities. This year we have responded to the CDP Climate Change Questionnaire for two consecutive years. In 2021, in accordance with the Recommendations of the TCFD, we proactively identified, evaluated and addressed the financial impact of climate change on our business, and officially launched our carbon neutral planning.

2.1.1 Climate Change Management

The Board has appointed the CGC to oversee ESG issues at Xiaomi, including monitoring the implementation of action plans in response to climate change and evaluating the progress of the action plans. The SC established this year is responsible for providing guidance and assistance to execute these projects across various business units and functions, and reporting the progress to the CGC.

(Please refer to Section "1.2 ESG Management" for details on our ESG Management Framework)

2.1.2 Risk Identification and Responses

In 2021, based on our business nature, we have identified the climate change-related risks that could possibly exert economic impact on our Company and outlined measures accordingly:

Transition Risks

Risk Type	Description	Measures
Policy and Legal	Markets where Xiaomi operates our business have passed or have been revising the laws, regulations and policies regarding climate change. For example, China has released a policy framework for its path towards peak carbon emissions and carbon neutral targets, and the EU has adopted the European Climate Law. In the future, more markets will introduce laws, regulations and policies to mitigate climate change, which may increase our compliance costs.	• Closely monitor climate-related laws, regulations and policies enforcement in the markets where Xiaomi operates; • Timely communicate with relevant business lines on the impact of local climate-related laws, regulations and policies and discuss measures in response to the regulatory requirements, to ensure the compliance of our products and services.
Market	In some overseas markets, environmental standards pertaining to products and concerns over climate change are rising, which may increase our costs related to product design and R&D.	• Reduce the use of packaging materials; • Increase the use of eco-friendly materials in our products.
	Rising costs in our production process including electricity price, energy price and labor cost.	• Streamline production process and optimize manufacturing engineering so as to reduce production costs.
Reputation	Lack of or delayed actions for tackling climate change might damage our brand reputation, which may lead to decline in sales or disinvestments.	• Provide suppliers with training and education on climate change and sustainability; • Require suppliers to report energy and carbon emission data.

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Physical Risks

<table>
<tr><th>Risk Type</th><th>Description</th><th>Measures</th></tr>
<tr><td>Acute</td><td>Extreme natural hazards, such as hurricanes and floods, may result in production or operation interruption due to water and electricity outage, or damage of manufacturing facilities.</td><td rowspan="2">• Develop natural disaster early warning system and corresponding emergency plans for high-risk areas;
• Set up early warning systems and emergency plans for force majeure events;
• Diversify our global supply chain capabilities to avoid production concentration.</td></tr>
<tr><td>Chronic</td><td>Rising sea levels by climate change threaten the production facilities and infrastructures in coastal areas.</td></tr>
</table>

Addressing Climate Change

Everyone has a responsibility to stop climate change. We have taken a number of actions for our employees to better understand the impact of this global issue, including:

- **Organized a company-wide survey to assess the level of understanding of our employees on climate change;**
- **Collaborated with Green Monday to introduce sustainable dining concept to our employees;**
- **Participated in Eco Rating and helped our R&D technicians obtain an understanding of the impacts certain smartphone components have on environment and climate change, and seek measures to reduce the impacts on environment and climate change in future designs (e.g. change of materials and manufacturing engineering)**

2.1.3 Seizing and Realizing Opportunities

Xiaomi firmly believes that eco-friendly products driven by technology advancement not only make contributions to the environment and society, but also bring us business opportunities. We will continue to invest in low-carbon technologies and develop more energy-saving products to fulfill market demands and create financial returns for us.

New Energy Vehicle

At present, fossil fuels for Internal Combustion Engine Vehicle (ICEV) is one of the major sources of GHG emissions. Increasing electric vehicles (EV) penetration is critical to mitigate climate change. In 2021, Xiaomi officially launched our Smart EV initiative, with an initial investment of RMB10 billion (around US$1.57 billion), and total investment of US$10 billion over the course of the next 10 years in research and development and manufacturing of smart EV.

2.1.4 *Carbon Neutral Planning*

Considering our diversified product portfolio, various business segments, and a wide range of value chain, we enacted a two-phase carbon neutral program that targets at operations and value chain, respectively.

In 2021, we carried out a series of groundwork in our carbon neutral process across the Group and our value chain, including enhancing our climate change management framework, identifying our GHG emission sources across our business operations (Scope 1 and 2), and calculating the emission data for our baseline year of 2021. We have also conducted training courses for our senior management, employees and suppliers on climate change.

	Scope 1 Emissions (metric tons CO_2e)	Scope 2 Emissions (metric tons CO_2e)	Total GHG Emissions (metric tons CO_2e)
2021	**9,096.95**	**73,723.21**	**82,820.16**
2020	8,402.12	58,079.17	66,481.29

(Please refer to Section "2.2 Environmental Impacts of Our Products", "2.3 Green Operations" and "3.1.4 Supplier Capability Enhancement" for details on the measures we have taken to address climate change)

2.2 Environmental Impacts of Our Products

In 2021, we continued to reduce resource consumption and minimize the environmental impacts of our products, across their life cycle, by leveraging technology advancement and optimizing production processes.

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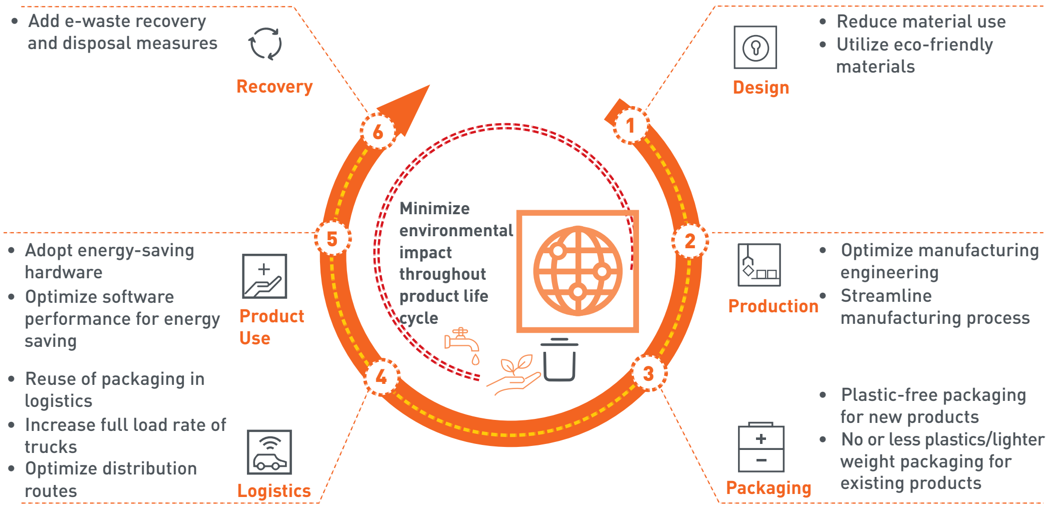
Our measures throughout the entire product life cycle included:



2.2.1 Green design to optimize material selection

We strive to increase material efficiency by optimizing the product structure and maximizing the use of recycled or energy-saving materials, while maintaining product quality.

- In Xiaomi flagship smartphones models, we adopted bio-based polyamide resin, a plant-derived material, in the brackets. It was used in our Xiaomi 11 and Xiaomi 11i series, accounting for approximately 40% and 21% of total weight of the plastic parts, respectively; in our metallic device antenna (MDA) devices, recycled metal accounted for approximately 30% to 45% of the total weight of the metal parts;

- Xiaomi 12 series featured a rear cover made of BASF Haptex®, a low-carbon non-solvent polyurethane (PU) material. This material, by life-cycle analysis (cradle-to-gate), consumes 20% less energy, emits 20% less GHG, and uses 15% less water, as compared to synthetic leather;

- The stand base of our smart TV products utilized recycled aluminum alloy that accounted for about 30% of the overall weight of the base material. The annual production of this part consumed about 50 metric tons of recycled aluminum alloy. This material was used for EA/ES model 2022, Master Series OLED models and 86 inches/98 inches products;

- The newly launched water purifier integrated four filters into two, reducing the annual consumption of plastics packing filter elements by around 98 metric tons.

2.2.2 Low-carbon production processes to reduce carbon footprint

We worked with our suppliers to optimize and simplify manufacturing process to improve production efficiency. Beyond that, we encouraged our partners to maximize energy efficiency by taking energy-saving measures and optimizing energy management.

- By streamlining the production process for the base of ES/RX TV series, we reduced metal usage by approximately 25% and lowered production costs by approximately 20% on average.

Optimization of Product Structure and Manufacturing Process
Some of our smart TV products adopted joint structure in the back cover to reduce the material used and improve installation efficiency. This reduced approximately 132 metric tons of plastic, saving approximately 30 thousand cubic meters of natural gas and 30 thousand kWh of electricity, or 84 metric tons of CO_2e.

2.2.3 Reduce plastics to promote green packaging

We are looking for more environmentally friendly designs to create plastics-free packaging for new products and no or less plastics and lighter packaging for existing products, minimizing the use of packaging materials while ensuring packaging quality.

- Removed the middle frame from the packaging of the Redmi Note series smartphone, reducing single packaging weight by 5% to 8%;
- Cut down the corrugated fiber paper used in the packaging for smart TV products under 43 inches to three layers from five layers, reducing annual packaging paper consumption by approximately 130 metric tons;
- Applied plastic-free packaging to 90% of new small-sized and lightweight IoT products across all categories;
- Adopted paper card and paper holder, instead of EPS (expanded polystyrene), for water purifier, air purifier, and electric kettle products, reducing plastic by 450g, 180g and 60g per single unit for the three products, respectively.

2.2.4 Manage transportation to increase logistics efficiency

We substantially improved freight efficiency by reusing logistics packaging, increasing full load rate, and optimizing distribution routes.

- Qualified post-consumed cartons were reused with a recycling label. In 2021, we reused about 6 million post-consumed packing cartons;
- In 2021, we required service providers to increase their full load rate from 60% to 70%, and added eight direct routes based on traffic analysis. This reduced annual transportation fuel consumption by approximately 20% and driving distance of approximately 290 thousand kilometers, or 220 metric tons of CO_2e;

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- We used lightweight pallets for shipping smartphones abroad. Each new pallet was 7kg lighter, annually saving up to 280 metric tons of wood, and aviation fuel by 460 metric tons, or 1,423 metric tons of CO_2e.

Streamlined Product Packaging and Improved Transport Efficiency
We re-designed the structure of several routers such as Mi Router AX1800 for smaller size, resulting in reduced packaging materials, saving approximately 76 metric tons of packaging materials in 2021. The new design also increased stacking, reducing the number of shipments by approximately 30% to 50% for same shipment volume.

2.2.5 Pursue energy efficiency to extend product life cycle[1]

We use energy-efficient hardware and develop software with energy-saving features, to relentlessly pursue better energy efficiency and extend product life cycle.

- The System on Chip (SoC) installed on our flagship smartphone models was upgraded from 7 nanometers to 5 nanometers, increasing the component's energy efficiency by approximately 30%. The display was made of Low Temperature Polycrystalline Oxide (LTPO), reducing energy consumption by approximately 25%;

- Our MIUI 12 Operating System (OS) was upgraded with "Balanced" mode, under which battery can last for an additional 47 minutes per charging. It also enables adaptive screen refresh rate in various scenarios, extending use time by up to 21 minutes.

2.2.6 Recycle and recover to support circular economy

We are committed to product recycling and resource recovery initiatives. We launch our global recycling and trade-in programs to reduce electronic waste. We also formulated a strict product protocol to ensure that wastes are handled properly.

- In 2021, we recycled over 650 thousand smartphones worldwide, roughly 197 metric tons, 80% to 90% of which were resold;

- In 2021, we launched three employee purchase schemes in China under which 1,681 product units with damaged packaging but intact product performance were sold at a discount;

- We set forth product disposal policies for products damaged during transportation, and assigned dedicated personnel to supervise the entire disposal process. In 2021, a total of 7,172 product units were scrapped, with 39 on-site supervisions.

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[1] All results are based on internal laboratory test results. Actual performance may vary.

Overseas Product Recovery Program

We ran product recycling programs in five countries and regions, namely Italy, France, Spain, Indonesia and Hong Kong, and partnered with qualified agencies for repair. We strictly verified the certifications of our partners, including Quality Management System (ISO9001), Environmental Management System (ISO14001), Information Security Management System (ISO/IEC27001) and International Responsible Recycling (R2) Certification, to ensure that the refurbishing, resale or scrapping are compliant with local regulations. In 2021, we sold about 0.3 metric tons of trade-in smartphone products overseas, and recycled about 20 metric tons of smartphone motherboards, of which about 22% were reused, reducing approximately 4.5 metric tons of electronic waste.

2.3 Green Operations

Xiaomi strictly abides by the *Environmental Protection Law of the People's Republic of China, Energy Conservation Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environment Pollution by Solid Wastes, Water Pollution Prevention and Control Law of the People's Republic of China* and other laws and regulations, and makes continuous efforts to save energy and water, as well as reduce waste across our entire operation area, including self-operated office parks (such as our Beijing Xiaomi Science and Technology Park, Beijing Yizhuang Park, and Wuhan office park), laboratories, self-operated data centers, self-operated warehouses and our direct-operated Mi Homes, in order to maximize energy efficiency and reduce pollutant emissions. Every year, we actively identify and evaluate local laws and regulations on environmental protection, energy conservation and waste prevention and control, and continuously refine our internal policies and protocols on environmental management, such as the *Environmental Protection Management Procedure*, to guide our operations.

In 2021, we had dedicated staff members to manage environmental affairs in each of our office parks. At the same time, our Beijing Xiaomi Science and Technology Park was certified Leadership in Energy and Environmental Design (LEED) Platinum®.

2.3.1 Energy Management

Energy used in our office parks primarily consists of purchased electricity and heat. By regularly analyzing our energy consumption pattern, we timely switched to energy-saving equipment and optimized our smart energy management system to maximize resource efficiency, and minimize energy consumption in the workplace.

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In 2021, we have taken various measures across our office parks, including:

Major Areas for Energy-saving	Our Measures and Results in 2021
Temperature Control System	• Our Beijing Xiaomi Science and Technology Park was equipped with natural cooling tower to shorten cooling time, saving approximately 400 thousand kWh of electricity power per year.
Lighting System	• Our Beijing Xiaomi Science and Technology Park and Wuhan office park adopted an outdoor floodlight system, saving approximately 65 thousand kWh of electricity last year; • The "Black Light Factory" (Yizhuang Smart Factory) in our Beijing Yizhuang Park is capable of lights-out production, saving approximately 310 thousand kWh of electricity per year.
Office Building	• The large screen in the lobby of our Beijing Xiaomi Science and Technology Park was scheduled off regularly, saving approximately 140 thousand kWh of electricity per year.
Essential Facilities	• The bathrooms in our Beijing Xiaomi Science and Technology Park were equipped with infrared sensors for lighting and fan control, saving approximately 380 thousand kWh of electricity per year.
Renewable Energy	• The solar boiler systems in our Beijing Yizhuang Park and Wuhan office park generated about 6,100 metric tons and 600 metric tons of hot water, accounting for 60% and 30% of the annual hot water consumption on site, respectively.

Energy-saving Measures in Data Centers
Our self-operated data center uses water-cooling system and natural-cooling system to lower energy consumption. In 2021, the water-cooling system was used without power consumption for 90 days, reducing energy consumption by approximately 270 thousand kWh of electricity in total.

We also take energy efficiency as one of the key criteria when choosing cloud service providers and data centers.

By adopting the above measures, we reduced approximately 1,084 metric tons of CO_2e in total at our office parks in 2021.

2.3.2 *Water Stewardship*

Across our operations, all domestic water and reclaimed water (if any) are provided by third parties. So far, we face no shortage of water resources. Our key water-saving efforts in 2021 included the installation of a rainwater harvesting system, the control of water pressure, and the optimization of water consumption in sanitary wares. In 2021, we saved approximately 2,000 metric tons of water across our office parks.

We endeavor to discharge wastewater at office parks and production responsibly. Wastewater from our Yizhuang Smart Factory is discharged and stored separately before recycling by qualified third-party organizations. Domestic sewage from offices and canteens in each office park is strictly treated with sedimentation and separation before properly discharged.

2.3.3 *Waste Management*

Our waste is sorted and collected by qualified third-party organizations for proper disposal. We also put up signs and distribute videos on environmental protection topics to our employees to raise awareness and further reduce waste produced from our daily operations.

Non-hazardous Waste

Non-hazardous waste generated from our operations mainly includes domestic waste at office and kitchen waste. For domestic non-hazardous waste, we provide labeled bins in our offices to facilitate waste sorting. Sorted waste is classified by our cleaners for accuracy, before taking away.

The canteen at the Beijing Xiaomi Science and Technology Park serves over 20 thousand meals per day. As such we instituted professional waste treatment equipment to process kitchen wastes into animal feeds or organic fertilizers in accordance with national standards. In 2021, we processed about 3,386 metric tons of kitchen wastes, converting it into approximately 328 metric tons of animal feeds and organic fertilizers.

Meanwhile, we actively launch various waste reduction initiatives, and conduct waste sorting training and campaigns to our employees to promote awareness. We encourage double-sided printing at workplace. At our direct-operated Mi Homes, we adopt digitalized staffing system to manage shifts and avoid paper consumption. In the canteen of our Beijing Yizhuang Park, food is charged by weight, which further minimizes kitchen waste.

Hazardous Waste

Hazardous waste generated at workplace primarily includes toner and ink cartridges, and scrap metal from R&D activities. The toner and ink cartridges are processed and recycled via our printing suppliers. Metal scraps are collected at separate bins in the laboratories and further processed by qualified third-party organizations.

Hazardous waste in the Yizhuang Smart Factory, such as scrap materials and laboratory wastes, are temporarily stored in a dedicated area, and disposed by certified third-party organizations.

(Please refer to Section "4. Key Performance Indicators" for more details on environmental KPIs)

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3. Social

As a responsible corporate citizen, Xiaomi is committed to growing together with all stakeholders, including our suppliers, employees and users.

3.1 Our Supply Chain

As a global technology company, we manage a dynamic multi-tiered supply chain across raw materials mining, processing, assembly, logistics, sales and services, product recovery and recycling. To maintain supply chain stability and business continuity, we have embedded ESG risk management in our supplier life-cycle management and have also partnered with suppliers to improve their ESG performance.

Our suppliers are primarily classified into two categories, namely production suppliers that directly and indirectly provide products and services, such as product components and final products assembly, and non-production suppliers that support our business operations. Considering ESG risks and impacts, we prioritize production suppliers in our protocols.

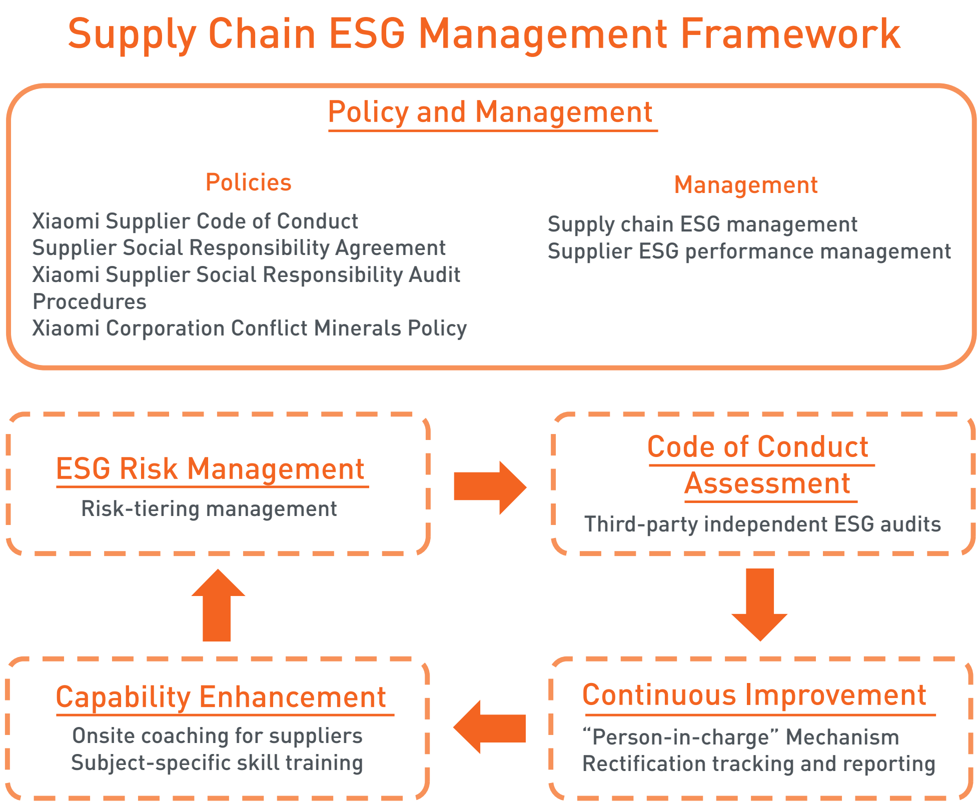
3.1.1 Geographic Distribution of Suppliers

In 2021, we worked with a total of 1,221 production suppliers, among which 89% were located in mainland China and 11% were located in other countries and regions.

Locations	Number of Production Suppliers
Mainland China	1,092
Overseas	129

3.1.2 Supplier Management System

The Company published *Xiaomi Supplier Code of Conduct* ("Code of Conduct") in 2020. Our suppliers are required to comply with our requirements on environment, health and safety, labor rights, business ethics, and management system, in line with the international standards, such as *Responsible Business Alliance Code of Conduct*. Under the Code of Conduct, dedicated ESG personnel in relevant business units have integrated ESG protocols into supplier life-cycle management, including onboarding, routine management and exit, as appropriate.



In 2021, we incorporated supplier ESG management module digitally into our Supplier Relationship Management (SRM) system. The new module was applied to collect and analyze ESG data related to our products, including green energy use, GHG emissions and reduction targets, pollutants discharge (wastewater, exhaust gas and solid waste) and sourcing of conflict minerals.

Furthermore, starting with our smartphone business unit, we extended our supply chain ESG management from direct suppliers to key second-tier suppliers (indirect suppliers). We perform ESG risk assessment and due diligence on all the suppliers under management and categorize them into low/medium/high risk levels. We conduct third-party onsite audits on the suppliers labeled as high- or medium-risk, and closely track the issues until they are resolved.

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3.1.3 Supplier Life-cycle Management

Onboarding of New Suppliers

Since 2020, ESG compliance has become one of the important supplier onboarding criteria at Xiaomi. We require each supplier candidate to submit RBA VAP[2] report, to validate its ESG performance, or we will arrange an on-site audit conducted by our assigned third-party agencies. In the event of any red-line issues[3], suppliers will not be admitted until those issues are rectified. Suppliers are also required to sign before formal engagement and adhere to our *Supplier Social Responsibility Agreement* (CSR Agreement) and comply with our Code of Conduct. In 2021, six suppliers were not admitted due to red-line issues.

Supplier Assessment

We collaborate with third-party agencies to conduct annual review on our suppliers, to evaluate the ESG performances and identify any ESG risk of our suppliers according to *Xiaomi Supplier Social Responsibility Audit Procedure*. We require our suppliers to complete all rectifications of any identified nonconformities within four months.

In 2021, we further refined our working procedure:

- Supplier selection was based on risk levels and historical audit performances;

- Supplier audit requirements were amended with more details in terms of environmental and fire management, and site selection conformity;

- A mechanism on collaboration for rectification was established to include a weekly progress meeting, between ESG team and business units, for more efficient rectification process.

Following supplier selection criteria, in 2021, we completed third-party audits on 320 suppliers, an increase of 71 suppliers compared with last year.

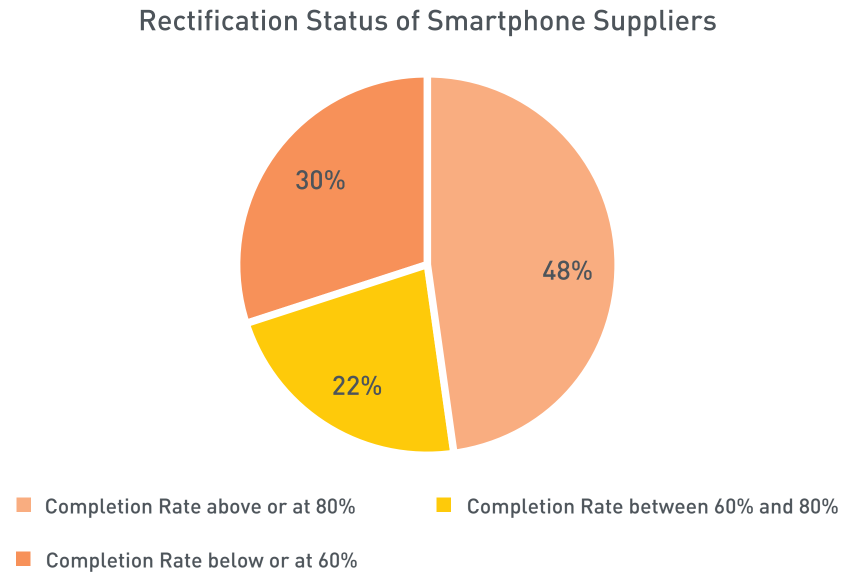
ESG performance of smartphone suppliers over the past two years:

	High-performer	Medium-performer	Low-performer
2021	**29.7%**	**25.9%**	**44.4%**
2020	22.5%	22.5%	55.0%

2 Responsible Business Alliance Validated Assessment Program

3 Xiaomi red-line issues include: prohibition of child labor and effective protection of underage workers; no forced labor or violence; prohibition of illegal employment discrimination; true and reliable working hour record; employee salary no less than the minimum wage level as stipulated by local law; safeguard of employees' health and safety; effective management of fire hazards; prohibition of illegal discharges of toxic and hazardous waste; prohibition of commercial bribery in any form.

The status of rectification taken by smartphone suppliers is as follows:



Conflict Minerals Management

We adhere to the following initiatives on responsible sourcing of minerals:

- *Organization for Economic Cooperation and Development (OECD) Due Diligence Guidelines for Responsible Supply Chains of Minerals in Conflict Affected and High-Risk Areas*; and

- *RBA Responsible Minerals Initiative (RMI)*

The *Xiaomi Corporation Conflict Minerals Policy* was formulated based on the above. We pledge that we will not source conflict minerals that directly or indirectly finance local armed groups, and we require our suppliers to trace the sources of conflict minerals in their products in accordance with the above international standards, to ultimately achieve conflict-free supply chains.

In 2021, we thoroughly traced the sources of tin, tantalum, tungsten, gold ("3TG") and cobalt used across our smartphone supply chain. We identified a total of 431 upstream smelters/refiners from 59 countries and regions, 94% of which were accredited by the *Responsible Mine Assurance Program* (RMAP). We required the suppliers to conduct third-party due diligence on the unaccredited smelters/refiners under the RMAP requirements, or replace with accredited smelters/refiners, to ensure supply chain compliance and transparency.

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Mineral	Proportion of certified smelters/refiners	Number of smelters/refiners
Cobalt (Co)	70%	90
Gold (Au)	100%	173
Tantalum (Ta)	100%	36
Tin (Sn)	99%	81
Tungsten (W)	100%	51

3.1.4 Supplier Capability Enhancement

In 2021, we continued to enhance supplier competence in ESG management. To this end, we cooperated with external ESG institutions to organize and arrange a broad array of subject-specific trainings for our suppliers with topics including but not limited to environmental protection, chemicals management, energy management, health and safety management. Additionally, we invited experts to provide on-site coaching sessions to guide our suppliers in identifying potential risks, strengthening management skills and improving internal management.

GHG Management Capability: Survey and Enhancement

In 2021, we strengthened our efforts to measure carbon footprints across our supply chain. Among our smartphone suppliers, we identified 103 suppliers with carbon emission reduction targets, 41 suppliers with GHG emission data verified by third parties, and nine suppliers in the process of independent verification on GHG emission data. We also organized a supplier training session on Xiaomi's criteria and requirements for GHG accounting. More than 700 participants from 200 suppliers joined this training session.

"SatisFactory" Project

In 2021, multiple departments in Xiaomi jointly launched a "SatisFactory" Project in an effort to assist suppliers to set ESG goals, develop ESG methodologies and implement ESG measures in daily operations.

Main achievements by one of our smartphone assembly suppliers in the "SatisFactory" Project:

Area	Methodology	Achievement
Energy-saving technical improvement	Projects on waste heat recovery, online monitoring of energy consumption, and chiller optimization	Reduction of carbon emissions by 14.92%
Waste recycling	10 projects including recycling of used labor suits and workshop anti-static trays, cost reduction of silicone adhesive protective films, and improvement of OQC (Output Quality Control) online inspection on coating process	Cost reduction of RMB1.165 million
Identification of ESG regulations and monitoring ESG performance	ESG regulation identification on a monthly basis, from quarterly, to elevate awareness of regulation compliance	Stronger compliance with related ESG regulations
Employee satisfaction enhancement	Diversified staff activities such as group/team leader trainings, employee seminars and employee care programs	Employee satisfaction enhanced by 14%

We also guided this supplier on key work plans for 2022, including the introduction of ISO50001 Energy Management System, carbon neutralization capacity building, and ESG awareness enhancement of management and staff.

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Green Supply Chain Training

We recognize good training makes a difference, and continue to offer external professional training opportunities to our suppliers. In 2020, our selected suppliers participated in the "Green Supply Chain Innovation Pioneer Project" in the Electronic Industry of the Pearl River initiated by the Committee on Social Responsibility of the Chinese Electronics Standardization Association (CSR-CESA) of the Ministry of Industry and Information Technology of the People's Republic of China (MIIT). In 2021, one of our suppliers was recognized as an excellent case in "Identification and Assessment of Environmental Risk Factors and Chemical Management."

3.2 Our People

At Xiaomi, we believe talent is one of the most valuable assets for us to achieve technological innovation and maintain our leadership in a fiercely competitive market.

We attract, train, motivate and retain talents, with competitive remuneration and benefits, a safe and healthy working environment with diversity and inclusion, and customized training and development.

We strictly abide by the *Labor Law of the People's Republic of China*, the *Labor Contract Law of the People's Republic of China*, the *Social Insurance Law of the People's Republic of China*, *Work Safety Law of the People's Republic of China*, the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, *Regulation on Work-Related Injury Insurance*, *Employment Ordinance* (Hong Kong), *Estatuto de los Trabajadores* (Workers' Statute in Spain), and other domestic and foreign laws and regulations related to employees' basic rights and obligations, health and safety, and closely follow latest requirements.

3.2.1 Employee Rights

Recruitment, Employment and Diversity

Xiaomi upholds the principles of "fair, just, and open" and develops internal policies on recruitment, employment, and benefits, such as the *Employee Handbook* and *Special Provisions on the Protection for Female Employees*, to manage our employees globally.

In 2021, in accordance with *Provisions on the Prohibition of Using Child Labor in China* and other similar regulations in our overseas operations, we amended our *Employee Handbook* to add that we do not permit the use of child labor in any operation. Provisions on anti-discrimination and prohibition of forced labor were also included as part of the amendments, and we ensure that employees are fully aware of their rights upon signing contracts with us. Furthermore, regular trainings for interviewers were conducted to highlight fair hiring practices. In 2021, we didn't record any incident of child labor, forced labor, employment discrimination, or gender discrimination. Any offence in the aforementioned will be strictly penalized in accordance with relevant laws and regulations as well as our internal requirements.

Our strategic talent team and Human Resources Business Partners ("HRBPs") in all business units work closely to conduct research on best practices of talent management and recruit talents for our core technical and strategic roles. In 2021, we hired 17,116 full-time employees, of whom over 3,437 were fresh graduates, and 42% of whom were technical positions.

We value the skills and resources of local talents and their contribution to our business development. We also hope to promote local employment by recruiting local talents. As of December 31, 2021, we had 2,484 full-time employees overseas, of whom 2,269 were local employees.

Employee Engagement and Communication

We treat employees equally and are open to their advice on operations and management. We encourage employees to speak up by establishing diversified communication channels including online platforms, and dedicated hotline and email, and by soliciting employees' opinions through public notices during regulations amendment period.

In 2021, our labor union launched a new digital platform as an additional channel to collect both anonymous and identified feedback from employees, and regularly provide solutions and track progress. All issues received on this platform in 2021 have been addressed.

Through our semi-annual employee surveys, we collect feedbacks on company management and employee satisfaction, and conduct a comprehensive assessment on employee engagement, devotion, loyalty and recognition. A recent survey in which approximately 80% of employees participated, showed that over 90% of the participants have high interest and expectations for their jobs at Xiaomi. Compared with the result at the beginning of 2021, employee satisfaction rates increased by approximately 4%, and the proportion of employees who plan to stay with the Company for more than three years increased by approximately 5%.

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Our key awards for talent management in 2021:

Organization	Award/Ranking
Forbes	World's Best Employers 2021
Universum	No. 4 on the list of "China's Most Attractive Employers" voted by engineering students

3.2.2 Employee Benefits and Welfare

Compensation, Welfare and Incentives

Xiaomi exercises equal pay for equal work by offering our employees sound remuneration and benefit packages under a performance-based structure and incentive program.

Performance Evaluation

We have established a comprehensive performance evaluation mechanism through multi-dimensional assessment for each employee. An appeal mechanism is in place that enables employees to file complaints to ensure fair and objective evaluation, thus to provide justifiable compensation.

Long-term Incentive

We value long-term talent motivation and actively promote equity incentive programs. In 2021, the Board awarded a total of 266.5 million shares to 8,455 selected participants[4]. We enacted two major equity incentive plans for specific talents:

- A total of 70.23 million shares were awarded to 3,904 employees, including outstanding young engineers, fresh graduate employees, employees in core positions, and engineers winning Annual Excellent Technology Award.

- A total of 119.7 million shares were awarded to 122 employees including technical experts, mid-level and senior management, as well as recipients of the New 10-Year Entrepreneurship Program.

Employee Benefits

We care about the physical and mental health of our employees, and on top of social insurance and welfare in compliance with national laws, we as well provide them with:

- annual physical examinations;

- commercial health insurance, including discounts for family members;

- free online and offline psychological counseling services and monthly activities launched through Employee Assistance Programs (EAP);

[4] For details, please refer to the announcements "GRANT OF AWARDS PURSUANT TO SHARE AWARD SCHEME" on January 6, July 2, July 6 and November 24, 2021,respectively.

- Recreational facilities including gyms, book corners and cafes; and,
- Infirmaries and baby care rooms.

To achieve work-life balance for our employees, this year we organized a variety of employee activities in our office areas across the country, delivering human care, showcasing personal talent, and promoting traditional culture. According to our survey, over 95% of employees were very satisfied with these activities.

Our activities in 2021 included:

- 2021 Xiaomi Family Day: The event was organized for families of employees and Mi Fans, in five main office areas in mainland China, with over 2,500 participants;



- Midsummer FUN Night: The event was hosted to celebrate Xiaomi's 3^{rd} anniversary as a public company and 2^{nd} anniversary of our Beijing Xiaomi Science and Technology Park opening, with approximately 1,000 participants, including our business partners;

We encourage our employees to develop personal interests and hobbies. We have established 67 clubs of all kinds in mainland China, and organized activities every April and September to attract new joiners and help them connect with fellow employees.

3.2.3 Employee Health and Safety

Management System

We established our health and safety management system in accordance with ISO45001 Occupational Health and Safety Management System Standard. Our Beijing Xiaomi Science and Technology Park and Hong Kong office have been certified by ISO45001 standard.

We continue to enhance our environment, health and safety (EHS) management capability by acquiring more EHS experts. This year, a team of seven professional staff were appointed to manage EHS affairs at the Beijing Xiaomi Science and Technology Park.

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Safeguard Measures

Every year, we regularly discuss and update important health and safety aspects, impact and measures. We carry out safety inspection on our own office space and rectify possible hazards at regular intervals. For laboratories involving potential hazard sources, we provide necessary personal protective equipment (PPE) for relevant R&D personnel.

We have also defined work injury, the application and certification of work injury leave, as well as compensation during work injury leave in the *Employee Handbook*, so as to ensure the rights and interests of employees.

We established the *Emergency Response Mechanism* in 2021, with corresponding solutions for unexpected visitors, user complaints, water leakage, power failure, fire, contingency handling and cooperation with public security agencies. After the system came into effect, 132 emergencies were handled throughout this year without significant impact.

Xiaomi engaged third-party organizations to regularly test air quality in all office areas, and the testing items include formaldehyde, benzene, total volatile organic compounds, particulate matter, and carbon dioxide. In 2021, the air quality of Xiaomi's office areas met national requirements.

Health and Safety Training

The Company organizes regular safety trainings and awareness campaigns on specific subjects, to ensure the health and safety of all employees. For operators handling hazardous waste disposal in the Yizhuang Smart Factory, we offer training every three months on occupational health and the use of PPE.

Food Safety

Our canteen has compiled the *Food Safety Management Manual of Xiaomi Canteen*, with reference to food safety laws and regulations and ISO22000:2018 Food Safety Management System, which details the provisions on sanitation, warehouse management, prevention of food poisoning, etc. Furthermore, the canteen management and staff have participated in food safety trainings organized by external professional agencies, and all obtained internal auditor qualifications.

3.2.4 Employee Development

Promotion

The Company provides employees with fair, open and structured promotion opportunities. By setting reasonable assessment standards, we are impartial to the regular promotion of employees, and also provide incentive mechanisms and promotion path for those who make substantial contributions.

Training

Xiaomi offers comprehensive trainings to employees globally, covering general education, corporate culture, cutting-edge science and technology, management skills, logical thinking, etc., to improve their overall capabilities, technical competency and leadership.

Our Group Learning Development Department (formerly known as Qinghe University) is responsible for organizing Group-level training. In 2021, we continued to provide online and offline trainings for employees across all business units and levels, as well as tailored or upgraded training plans. We also optimized our learning system and enriched course offerings to nurture proactive learning habits. In 2021, our online Learning Platform launched 715 online courses and 219 learning projects, covering more than 32 thousand online users.

Talen Development for New 10-Year Strategy

In line with the Group's new 10-year strategy, the Group Learning Development Department focuses on our talent pool and talent structure. We offered more trainings and courses to fresh graduates and experienced hires, and added dedicated trainings for TOP High-potential graduates[5] and interns. For example, we have launched "Fanxing Plan" for fresh graduates to maximize learning in a systematic approach, covering Group-level, business units and on-the-job training.

Training Programs for New Hires	Total Participants in 2021	Total Training Hours in 2021
Fanxing Plan (for fresh graduates)	3,571	305 courses with cumulatively 359,802 hours
TOP High-potential graduates	85	4 courses with cumulatively 6,375 hours
Interns	339	8 courses with cumulatively 3,729 hours
Experienced hires	7,000	5 courses with cumulatively 9,000 hours

5 Among fresh graduates, based on performance and capability evaluation, 5%–20% of them are selected to enter the TOP High-potential program for junior management development.

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Talent Development

In addition to existing development programs for junior, mid-level and senior management (including "Spark Camp," "Torch Camp" and "Ignite Camp"), we extend the coverage of the programs to more employees to strengthen overall management capability. Furthermore, we launched the "Flame Camp" for senior management, in partnership with China's top business schools to hone their management skills in corporate strategy, marketing, business operation, etc.

Program	Total Participants in 2021
Spark Camp	1,070
Torch Camp	389
Ignite Camp	84
Flame Camp	44

(Please refer to Section "4. Key Performance Indicators" for more details on employee KPIs)

3.3 Our Quality

Our philosophy of quality is to put users at the very center, and improve product quality, user experience and service quality as a whole, with full employee participation and closed-loop management. In 2021, we further optimized the quality management throughout the product life cycle and service process to improve user experience.

3.3.1 Quality Management System

We relentlessly pursue the principle "Quality is the lifeline of Xiaomi". In 2021, we officially published *Xiaomi Quality Handbook*, and required all employees to participate in, abide by and continuously improve the quality management across the life cycle of our products and services.

The Group Quality Committee of Xiaomi Corporation (the "Group Quality Committee") is responsible for coordinating the overall quality management at the Group, and setting the quality policies, objectives and mechanisms. In addition, each business unit also refers to ISO9001 Quality Management Standard to improve its own quality management framework, and deliver quality products and services in a closed-loop process.

In 2021, our business units further refined the Group's quality management mechanism. The amendments included systematic risk-based quality review of all products and services prior to launch, and full mechanism of accountability for quality management throughout a product's life cycle. To further improve product quality and user experience, the Group Quality Committee formulated *Measures for the Administration on Quality Projects,* and coordinates with business units to implement quality improvement projects.

In 2021, Xiaomi maintained ISO9001 certification for our business units including smartphones, smart TVs, laptops, smart hardware, and our e-commerce platform Xiaomi Youpin.

Professional Quality Training

In 2021, we offered 30 training courses including general courses such as quality culture, quality system and quality management, as well as professional courses such as quality tools, safety compliance and case studies. Over 17 thousand employees participated with a total of approximately 200 thousand hours.

In September 2021, the Group Quality Committee, along with our business units, launched our second "Xiaomi Quality Month". This year, we held 51 quality-related activities, including sharing knowledge on quality practices, hearing the voices of our users, and many other activities focused on quality.

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3.3.2 Product Quality Management

Our mission is to relentlessly build amazing products with honest prices. To improve quality and user experience, we refined our quality management at each stage of the manufacturing process, and incorporated the concept of superior user experience in the design stage to make better products for our users.

Quality Management on Smart TV Products

Xiaomi has implemented an integrated management system for our smart TV products. Through digital monitoring, we ensure the performance of our products maintain the best quality throughout the entire process, from the selection of materials and components to product design, manufacturing and testing.

We have also built a digital system for production yields, enabling real-time component performance analysis from different suppliers. Guided by industry standards, user feedback, and best practices of our suppliers, we continually improve our quality standards and encourage our suppliers to follow, thereby, improving the industry standards.

Product Safety Assurance

Xiaomi is committed to providing users with healthy and safe products. We regularly scrutinize and strictly follow the *Product Quality Law of the People's Republic of China, Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, and other relevant laws and regulations. We also align with local product safety standards in overseas markets (including safety codes, electromagnetic compatibility, wireless certification, environmental protection, energy efficiency, patent certification, etc.). We ensure product quality from the source by setting strict standards, developing technology applications and communicating with suppliers as well as R&D department for product compliance.

Strict Enterprise Standards

Our business units have developed quality standards that are higher than local legal requirements.

We have established a series of internal standards on temperature rise during use that are stricter than national standards, such as *Xiaomi Mobile Phone Structure Testing Specification_Thermal Test, Xiaomi Mobile Phone Structure Testing Specification_Thermal User Experience Model Test,* and *Router Thermal Testing Specification*.

Hazardous Substance Management

We abide by domestic, international, and other local rules and standards on hazardous substances and chemicals in products and packaging, including but not limited to:

- *Restriction of Hazardous Substances (RoHS)*
- *Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)*
- *Directive 94/62/EC on Packaging and Packaging Waste*

We continually revise our environmentally hazardous substance management based on regulatory compliance and feedback from suppliers. We also set stricter restrictions on hazardous substances per product characteristics and mandate suppliers to follow.

Our smart TV business unit inspects the usage of hazardous substances by regular sampling test (at least once per month) and by unscheduled sampling test. In addition, suppliers are required to provide periodic self-check reports.

Pursuit for Quality

Hardware R&D and Application

For the Xiaomi 12 series smartphone released in 2021, we adopted new technology for heat dissipation, including a 0.3 mm vapor chamber of white graphene high thermal conductivity material in the antenna area, as well as our proprietary technology — Loop LiquidCool Technology.

System Upgrade

In 2021, Xiaomi included Unavailable Time (UAT) and User Freeze Time (UFT) as fundamental measures to deliver a more stable and extra smooth user experience. Based on various user scenarios, the number of daily active users and average active duration, we identified 198 frequently used applications, and optimized them to reduce their UAT and UFT.

Our Xiaomi 11 Pro received the highest certification of *User-controlled Scenario Function Performance* for processing speed released by TL Certification Center (TLC) of China Academy of Information and Communications Technology (CAICT) in 2021.

Product Recall System

Xiaomi published the *Management System for Product Recall of Xiaomi Corporation* in 2020. If a product incident poses threats to consumers' safety, we will convene a recall response team for risk assessment and determine the scope of recall for any and all batches that may contain such risks. After the recall process is initiated, we will continue to monitor, analyze and review the incidents and conduct quality risk analysis on other products. These rules were in place and strictly followed in 2021.

In 2021, there was no product recall for health and safety reasons.

Industry Mutual Development

Xiaomi strives to lead the industry in innovation and promotes industry development. Xiaomi Group Technology Committee actively participated in setting standards and discussions related to product quality and technology both domestically and overseas.

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"The Forerunner — Reverse Osmosis Water Purifier" was awarded the title of "2021 Enterprise Standard Forerunner".

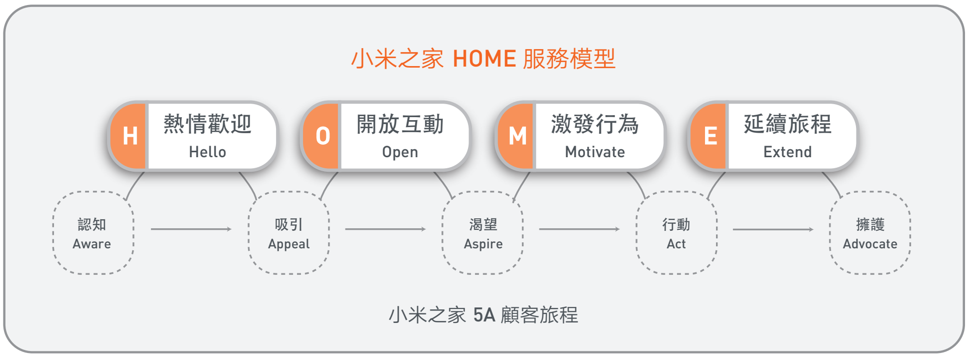
In 2021 the "Smart Home Quality Protocol and Application" was awarded 2021 Quality Technical First Prize by the China Association for Quality.

3.3.3 *Sales Quality Management*

Xiaomi sells our products through online[6] and offline[7] channels. In 2021, together with rapid business growth, we strove to elevate our service quality in all sales channels. Furthermore, we organized training programs to develop service awareness of all sales associates for higher efficiency and better quality. We enhanced users' shopping experience by observing and understanding changes in consumer behavior, and applying our new retail strategy. In addition, we provided online product manual, including instructions, safety guidelines, green labels, Compliance Certification Application (CCA), product disposal directions and other information (e.g. Mi 11 Ultra User Guide) to ensure users fully understand the product information prior to purchase.

Mi Homes Quality Management

Quality assurance of service is the foundation of our rapid expansion. In 2021, we opened more than 7,000 Mi Homes in mainland China. To ensure the service quality and operating efficiency of each store, we streamlined quality management for Mi Homes. Specifically, we adopted a grid management system to divide stores by regions, and assigned a leader in each grid area to manage stores, suppliers and inventories. We also established a "HOME Service Model" as the standard to serve shoppers in the entire process.



Meanwhile, we published the first edition of *Mi Home Quality Management Handbook*, specified the code of conduct, responsibility, level of authority and communication channels of each employee, as well as the scope, definition, level, solutions and handling process of each service incident.

Staff Training

We maintain high service quality of our sales team by conducting appropriate training. For new sales recruits in Mi Home, we provide training on corporate culture, rules and regulations, and general skills according to the characteristics of each position. The Company requires new store managers to take on-the-job training for a minimum of two weeks and up to three months, to ensure they have a comprehensive understanding of customer needs, and issues that may arise on the job and appropriate solutions. Following the examples of direct-operated stores, we further refined our training management system for exclusive agency stores and franchised stores as well.

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6 Xiaomi online sales platforms include self-owned channels such as Mi Store and third-party platforms.

7 Xiaomi offline sales platforms "Mi Home" includes direct-operated stores, exclusive stores and authorized stores.

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Sales Quality Management of mi.com

mi.com is Xiaomi's online sales platform and our first sales channel. In 2021, we published *Quality Management Manual for mi.com* in accordance with the requirements of the Group Quality Committee. For better user experience, we integrated compliance management into user complaints handling process. In addition, we also refined staff management system, which specified each leader's duties in project audits, and updated the training assessment for new recruits.

For online promotion campaigns such as "Double 11," "618", we formulated the *Xiaomi Promotion Escort Plan for mi.com*, which articulated the process for handling unusual activities during the peak sales periods.

3.3.4 Service Quality Management

Xiaomi has adopted diversified management and experience-oriented approach, and offer high quality service to our users globally. In 2021, we improved our efficiency in service management through a refined management process, streamlined service standards and employing information management system to integrate our sales and service capabilities, bringing consumers a more fulfilling service experience.

After-sales Quality Management

Xiaomi is committed to offering diversified and high-quality after-sales services to meet the different needs of users. We offer our users greater convenience by expanding geographic coverage and standardizing after-sales services. Meanwhile, we actively arrange after-sales trainings and quality improvement projects to ensure both service quality and efficiency.

<u>Maintenance Service Extension</u>

Since 2020, we have expanded our geographic coverage for our in-store service, mail-in repair service and to-home service. By the end of 2021:

- In-store service: we had 1,234 repair centers in mainland China, covering 22 provinces, five autonomous prefectures and four municipalities, representing an increase of 578 stores, and 14% increase in coverage rate year-over-year;

- Mail-in repair service: we established a cumulative 21 mail-in repair centers. In case of product failure, users can mail the product to a Xiaomi Service Center, and the center will send it back after repair or replacement;

- To-home service: we had a total of 1,891 stores in mainland China to provide to-home service, representing an increase of 338 stores and 80% growth in coverage rate year-over-year.

In 2021, we developed standardized tools for maintenance and installation of smartphones, air conditioners, washing machines and other products to improve the maintenance efficiency.

We also carried out specific quality enhancement initiatives, including:

- We adopted different color labels to differentiate repair turnaround time, reducing the duration of maintenance by approximately 20%;

- We introduced a decision-making mechanism for escalating crisis events related to product quality, reducing the processing handling time by 21 days on average and improving overall efficiency by approximately 53%;

- After-sales managers devised a more concise management process upon understanding the scope of work of engineers, and improved the efficiency of front-line work by approximately 50%.

This year, our overall number of effective service order increased approximately 30%, and after-sales service complaints decreased by 4.3%. In addition, the 24-hour installation and 12-hour mail in repair increased by 1.6% and 3.7%, respectively.

Training System

We carry out technical training for after-sales personnel, including product introduction, installation, maintenance and testing, as well as non-technical training of service processes, business communications and etiquette. In 2021, we conducted a total of 2,732 offline after-sales service training sessions, covering over 35 thousand attendees, with a qualification rate of over 93%.

Customer Service Quality Management

It is our duty to fulfill user needs with efficiency and accuracy. To improve user experience, we focus on customer experience throughout the entire feedback process. When handling complaint, we conduct closed-loop management including receiving, handling and collecting user feedback to ensure the problem is properly solved.

Customer Service Management System

We elevate customer services from "problem solving" to "enhancing experience" to better fulfill customer needs.

In 2021, we introduced an information management system to boost service quality and efficiency. Our major achievements include:

- Established an information management system, which could detect 120 thousand online and hotline service requests a day, with an accuracy rate of 87%;

- Introduced AI algorithm to our customer service hotline to identify user intention, and further improved the accuracy of the first transfer by 14%;

- Introduced a voice recognition algorithm and speech synthesis and built an intelligent outbound call system, with recognition accuracy of user intention up to 96%.

In the meantime, we worked with the Group Learning Development Department and built a full customer service training program including training plan, material preparation, performance assessment, data analysis, plan implementation, etc.

Solutions for Complaints

Relying on our problem-solving capacity and department accountability, we assign complaints to responsible departments, and ensure problems could be accurately and promptly handled with enhanced efficiency.

In 2021, to ensure user complaints were properly addressed, we added a follow-up service to track the effectiveness of problem solving. In addition, we introduced a closed-loop mechanism to respond to different scenarios.

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Overseas Service

Xiaomi has presence in more than 100 countries and regions. We conduct overseas business by building direct-operated stores and cooperating with local business partners. To ensure consistent service quality in each region, we adopt the strategy of "Follow HQ + Act Locally," and assign professional personnel under grid management system. Our goal is to fulfill the general requirements of the Corporation and the demands of local users.

Overseas Service System

To offer consistent service globally, in 2021, we consolidated customer services, after-sales services and parts supply, and established an Issue to Solution Platform (ISP) for a closed-loop service management. The platform is featured with:

- Service processing: By using system to process key steps including visits, after-sales services, repairs and returns, we strive to satisfy user requirements;
- Data monitoring: It conducts real-time service quality monitoring on service personnel, processes, and materials;
- Service quality improvement: It identifies abnormalities or room for improvement by analyzing service data, and supervises the implementation of actions through the project management tools.

Service Training System

We provide trainings on customer service and after-sales service for our employees and partners, respectively. We also initiate training programs on corporate culture, user experience, and peer visits for new recruits, to raise their service awareness. In 2021, our after-sales and customer service teams set up a dedicated training team to compile training materials, and offered our partners various courses by professional training institutions.

We require all after-sales specialists to take a qualification examination after training, and only those who pass and obtain certification can officially serve.

3.3.5 User Engagement

We facilitate communication with our users, and engage with our customers through various local activities around the world. We also expand channels for communication with users to collect their feedback and preferences. Based on the information we receive, we continually upgrade our products and services to better serve our customers.

Interaction with Mi Fans

We continue to promote channels of communication with Mi Fans, such as Mi Community, and keep close contact with users. Beyond that, we make the entire process open to the public, from product manufacturing, service, and branding to marketing, aiming to build a brand that grows along with our users.

We formulate a centralized strategy with localization by different regions. Through Mi Fan interactive activities featuring local culture and traditions, we strive to engage users more frequently and further improve our products and services based on their feedback.

In 2021, we continued to launch our previous highly acclaimed campaigns as well as new ones.

Xiaomi POP Run

"Xiaomi POP Run," an online running campaign, was held in 12 regions globally. Contestants were ranked by their steps counted on Mi Bands and Mi Watches.

"Special Communication for MIUI"

By collecting feedback frequently raised by Mi Fans, we refine and improve our after-sales service quality. In 2021, we received more than 200 suggestions and provided timely responses. We posted MIUI issues bi-weekly announcement, and the satisfaction rate of Mi Fans exceeded 90%.

3.4 Business Ethics

Xiaomi has a profound understanding of our responsibilities in business ethics. In accordance with *Code of Conduct of Xiaomi Corporation*, we encourage all employees to conduct business in a lawful and ethical manner, and pursue the three major principles of "Integrity, Honesty and Compliance" for the protection of user rights, and fair and healthy competition.

We strictly obey domestic relevant laws and regulations on information security and privacy protection, anti-corruption, anti-money laundering, anti-monopoly and anti-unfair competition, intellectual property protection, and advertising, including but not limited to *Personal Information Protection Law of the People's Republic of China, Anti-monopoly Law of the People's Republic of China, Anti-Unfair Competition Law of the People's Republic of China, Patent Law of the People's Republic of China, Advertising Law of the People's Republic of China* as well as regional regulations and policies such as the *EU Competition Law*. In addition, we closely follow up with all regulatory updates and amend our policies accordingly.

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3.4.1 Information Security and Privacy Protection

Information security and privacy protection are of primary concerns to Xiaomi. In 2021, we continued to improve our management system, workflow, technology and capability enhancement to fulfill Xiaomi's "Five Privacy Protection Principles":

- Transparency: Users have full control over their personal information;
- Data minimization: We only collect what we must collect;
- Clear purpose: Users will always know why exactly we collect and use their personal information;
- Guaranteed security: Users' personal information will always be secured;
- Compliance assessment: Rigorous privacy compliance assessment mechanisms keep our practices at check.

Management System

Under the leadership of the Group Vice President, Xiaomi Information Security and Privacy Committee is responsible for coordinating and managing Group-wide security and privacy activities, as well as optimizing the measurement mechanism of security and privacy indicators. With hundreds of security and privacy specialists and over ten professional attorneys, the Committee provides professional assistance to business teams on information security and privacy.

We closely track the development of latest relevant local laws and regulations, which assists us in timely updating the compliance policy database and data center, as well as further update our privacy policy and internal system documents, and carry out relevant compliance requirements in the product and business processes.

In 2021, our operation sites where IT activities are performed were 100% ISO27001 certified.

Workflow

Guided by the principles of Privacy by Design and Security by Default, we improved the product Security Development Lifecycle (SDL) and the process of security vulnerability disclosure in 2021.

SDL Optimization

Based on characteristics of the product development lifecycle, we built upon our existing SDL model and established a security development process that conforms with the actual conditions, and integrated security activities into the entire development cycle of products and services, to build robust security for our products.

- Before launch: We compiled the *Cybersecurity Baseline for Consumer IoT*, to guide the R&D team in security-specific requirement analysis and product development;
- Testing: With in-house-developed testing tools, our security team conducted source code security testing and penetration testing, to ensure each product in the pipeline passed the security test;

- Post launch: Aided by a vulnerability response mechanism, we monitored and checked product security on a regular basis through both internal examinations and external feedback.

To respond to the fast development cycle of our Apps and services, Xiaomi integrated security specifications and testing tools into our business processes and embedded security management into our Continuous Integration and Continuous Deployment (CI\CD) pipeline by consolidating processes and building information database, achieving continuous automation and continuous security monitoring.

Xiaomi App Store "Privacy Statement List"
In December 2021, Xiaomi App Store first launched the "Privacy Statement List," a feature extracting private information on APP and classifying them into five categories of "Details and Purposes of Data Collection," "Access Permission," "Data Sharing," "User Rights" and "Safeguard Measures of Personal Information Security." The five items are separately displayed on the App Detail Page for users to browse and read.

Improvement of Vulnerability Disclosure
In accordance with the standards of ISO/IEC29174:2018 and ISO/IEC30111:2019, we established a complete closed-loop process for vulnerability response and disclosure, and built a team of specialists to resolve and disclose all vulnerabilities in time for better security of our products and services. Meanwhile, we provided domestic and overseas security researchers with an exclusive platform for vulnerability reporting (Xiaomi Security Center — Incident Response) to facilitate active feedback of underlying product security problems.

Vulnerability response and disclosure:

- Recipient: Monitor and assign received vulnerabilities in a timely manner;
- Verification: Verify the vulnerability and confirm the exploitability and impact;
- Solution development: Provide effective fix solutions or risk remediation measures;
- Affected scope confirmation: Investigate and confirm the complete scope of affected products;
- Release: Review and publish the security advisory for the security vulnerability.

On November 4, 2021, The Internet of Things Security Foundation (IoTSF) released the 2021 assessment report on The Contemporary Use of Vulnerability Disclosure in IoT, listing Xiaomi as one of the 21 IoT device suppliers that met the extended threshold test.

Innovative technology
We relentlessly explore the scope of applications in information security and privacy protection technologies. In 2021, we once again improved the information security and privacy protection functions of our MIUI system.

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MIUI System Defense Enhancement

In 2021, Xiaomi released MIUI12.5 OS, which added four new privacy protection functions through smart clipboard, document sandbox, web browsing and hidden location data. These strictly safeguarded user data while granting users more access to understand and control personal information. Based on this, MIUI 13 added functions such as a facial recognition protection in camera and privacy watermark to further prevent privacy abuse and augment user control over personal information.

Training and Communication

We put great emphasis on training our employees on information security and privacy awareness and skills. In 2021, we carried out the following trainings:

- 33 training sessions on information security and privacy protection awareness, covering over 11 thousand attendees;
- Seven training sessions on security technologies, covering over 350 attendees;
- 10 training sessions on IoT security (internally and for ecosystem partners), covering 331 attendees;
- One training camp for specialist in information security and privacy, covering over 120 attendees.

Security and Privacy Awareness Month

In 2021, Xiaomi held the 2nd Security and Privacy Awareness Month, which included activities on Security & Privacy Class, Open Classes on Security & Privacy Technologies and MIUI Privacy Function Sharing. The Information Security and Privacy Committee provided dozens of hours of online lessons and benefited more than 20 thousand employees in awareness on security and privacy protection.

We also participated in a number of industry activities on information security and privacy protection, and shared best practices and experience. In 2021, we delivered speeches in a total of 12 events, such as:

Conference	Speech Title
Global Platform Business Seminar	IoT Security and Privacy Framework
ECV	MIUI Privacy Gatekeeper of Mobile Apps
Internet Security Conference (ISC)	New Infrastructure Era — Quest for Cybersecurity in EV Charging

Information Transparency

Xiaomi communicates with relevant parties and discloses information in an open and transparent manner, showcasing our effort and progress in information security and privacy protection.

Xiaomi Privacy	https://privacy.miui.com/en/
Xiaomi Security Center	https://trust.mi.com/misrc
Xiaomi Trust Center	https://trust.mi.com/

In 2021, we released the *Xiaomi Transparency Report (2020), Xiaomi IoT Privacy White Paper, MIUI 12 Security White Paper, MIUI 12 Privacy White Paper and Cybersecurity Baseline for Consumer IoT* (English and Chinese).

Meanwhile, we have established a product support policy to continuously provide security updates (such as security patches, security issue fixes and other security improvements) for Xiaomi smartphones and hardware products to ensure that product security protection mechanisms are always up to date. Users could also check regular updates on Xiaomi Security Center to learn about the current security support status and privacy-related information by product.

We have established a transparent communication mechanism and offered users an online interaction platform to engage with Xiaomi's privacy team.

Awards and Recognition

Our privacy protection capacities and measures passed the well-recognized privacy protection certifications and tests, including ISO/IEC27001, ISO/IEC27018, ISO/IEC27701, TRUSTe Enterprise Privacy Certification, TrustArc GDPR Privacy Management Certification, ioXt SmartCert Security Certification, TUV Enhanced Privacy Protection Test, BSI IoT Kitemark, as well as classified protection of cybersecurity and personal information protection capacity of operating system of smart mobile terminal. (For details, please go to Xiaomi Security Center).

In 2021, Xiaomi's Mi 360° Home Security Camera 2K and Xiaomi Mesh System AX3000 Router obtained the BSI Kitemark™ Certification for Consumer IoT Devices, and the Xiaomi App Store obtained the BSI Kitemark™ Certification for Secure Digital Applications, indicating that Xiaomi products were following *ETSI EN 303 645 Cyber Security for Consumer Internet of Things* and other relevant best security practices.

In addition, our privacy security team was awarded with "G-Outstanding Winner" in GeekPwn 2021 International Security Geek Competition.

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3.4.2 Anti-Corruption

We uphold the principle of "Zero Tolerance" against bribery and corruption, and require all employees to strictly adhere to the guidelines of compliance, transparency as well as integrity when interacting with relevant parties.

Regulatory Practices

We have developed a comprehensive anti-corruption compliance system to effectively prevent and tackle corruption. The Group has set up a dedicated team responsible for coordinating and managing anti-corruption, with the direct oversight by the Group President. We also formulated the *Code of Integrity of Xiaomi Corporation* for our employees and the *Code of Conduct for Business Partners of Xiaomi Corporation* for our partners, as well as *Whistle-blowing Regulation of Xiaomi Corporation*. Based on such, we set up the implementation rules and process for preventing, whistleblowing and investigating into wrongdoings, and build a digital platform to prevent fraud behaviors during business processes.

In 2021, in order to strengthen work ethics framework, we optimized the management system in the following three aspects:

- We established a Safety Investigation Department, under which we set up an education center to fulfill the responsibility for promoting anti-corruption ethics among employees;

- With reference to ISO37001 Anti-bribery Management System, we optimized our existing policies and procedures for a robust internal anti-corruption control mechanism. We formulated the *Anti-Bribery Management Guidelines* to identify and assess bribery risks, and adopt corresponding control measures against medium-to-high-risk incidents;

- We conducted an extensive classification and analysis on common fraud scenarios that were detected from anti-corruption investigations and subsequently provided our business and internal control teams with feedback to add control points in business process to prevent reoccurrence of similar incidents.

In 2021, Xiaomi obtained the certification of ISO37001 on R&D and sales of smartphones, basic software services, application software services, intelligent hardware/software and auxiliary equipment.

Whistleblowing

We have formulated the *Whistleblower Reward Policy of Xiaomi Corporation*, encouraging Xiaomi's employees as well as external parties to report any violation behavior. For the information received, we follow the *Whistleblower Reward Regulation of Xiaomi Corporation* to form a closed-loop management from acceptance through investigation and tackling. For suspected corruption, we fully respond by having specialists to investigate and follow up in accordance with the Group's regulations and policies. If it constitutes a criminal act, the investigators will transfer it to the judicial authority for handling and prosecution. In the meantime, our policies ensure that whistleblowers are properly protected and keep all information confidential, except for investigation purposes.

We established public channels for reporting corruption-related behaviors. Main channels are as follows:

Email: tousu@xiaomi.com

Reporting platform: https://integrity.mi.com/global

In 2021, there was one corruption case, which involved one former employee and it has been closed. The former employee involved was found to be in violation of Article 271 of the *Criminal Law of the People's Republic of China* on "duty embezzlement", with the criminal punishment of three years' imprisonment.

Raising Awareness

We endorse International Anti-Corruption Day. All of our employees are required to participate in two-week Sunshine Workplace program, with online learning and examination. The employee coverage rate of this training reached 100% in 2021.

In 2021, we launched special training sessions for employees in key positions such as procurement and designed a brand-new *Xiaomi Employee Integrity Education,* a comprehensive training program of anti-corruption for fresh graduates enrolled in our "Fanxing Plan". We also arranged awareness campaigns and activities to promote an ethical workplace, such as poster design, Xiaomi Integrity T-shirt Design Competition and a "Be an Honest Employee" campaign, to enhance employee's integrity awareness and creating a positive, fair, transparent and integral workplace culture.

In 2021, we held 32 training sessions in which more than 45 thousand attendees were engaged, covering all board members, senior and mid-level management and employees.

3.4.3 Anti-money Laundering

As our fintech platform "Airstar Digital Technology" develops, along with our expanding business, we established the anti-money laundering (AML) and countering terrorist financing (CFT) team responsible for formulating anti-money laundering policies, setting work objectives, and supervising implementation of relevant regulatory requirements. Our AML specialists are in charge of daily execution of anti-money laundering measures. In our daily work, we adopt a closed-loop approach to prevent, monitor, and handle AML incidents, backed by a comprehensive contingency plan.

According to the *Guidelines for the Self-assessment on Risks of Money Laundering and Terrorist Financing of Corporate Financial Institutions issued by the People's Bank of China*, this year we revised our *Detailed Implementation Rules of Self-Assessment of Money Laundering and Terrorist Financing Risks*, and improved our assessment approaches and control actions. We also built a digital system for AML control, to monitor bulk and suspected transactions, evaluate user risk ratings, monitor AML and CTF lists, and report suspicious or terrorist financing transactions. Once a risk incident occurs, the Risk Management Department responds promptly in accordance with the risk ratings and types, and propose suggestions to prevent and mitigate the risk going forward.

To improve employees' knowledge and awareness on anti-money laundering, we organized 10 internal and external training sessions in 2021, to promote laws and regulations, share case studies and exchange experiences.

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3.4.4 Anti-monopoly and Anti-unfair Competition

Xiaomi puts high emphasis on anti-monopoly and anti-unfair competition compliance. We have established anti-monopoly and anti-unfair competition compliance systems at the Group level and incorporated the requirements into the *Code of Conduct of Xiaomi Corporation*.

We have published the *Anti-monopoly Compliance Handbook*, which specifies the information about monopoly agreements, abuse of dominant market position, compliance with concentration of undertakings, and anti-monopoly investigation procedures, to guide proper development of the business.

Meanwhile, to improve employees' awareness and self-assessment skills in relation to anti-monopoly and anti-unfair competition, during 2021, we organized 15 special training sessions domestically and eight training sessions overseas, with about 800 participants in total.

There was no lawsuit against Xiaomi in relation to monopoly or unfair competition in 2021.

3.4.5 Intellectual Property Protection

Xiaomi advocates technology innovation and continues to develop and cooperate with our partners to acquire and co-develop proprietary new technologies. Therefore, we attach great importance to our own intellectual property (IP) protection, and also value and respect the IPs of our partners.

Our legal team is responsible for managing IP issues across the Group, and assigns IP specialists in each business unit to ensure proper implementation. We also place a mechanism across product life cycle, to avoid infringement and the compliance of our products.

In 2021, we refined the compliance management of our open-source applications. We optimized the management and control procedures and standardized open-source applications to build a long-term safeguard mechanism for the compliance of open-source applications. With such, we ensure the compliance across the entire process of introduction, application, update, and exit for our open-source applications.

Patent Protection

We respect intellectual properties. In 2021, we signed a licensing agreement with InterDigital to jointly promote industry development. We encourage our employees to apply for patents and provide considerable rewards per the *Measures for the Administration of Patent Reward and Remuneration of Xiaomi Corporation*. An early warning mechanism has been set up to track and analyze the trends in technology and product development, and to enhance our ability to respond to patent disputes. In addition, we have follow-up procedures in place for copyright and patent infringement, and will use legal means to defend our intellectual property rights.

By the end of 2021, we held over 25 thousand patents globally. In 2021, four of our patents received 22^{nd} China Patent Award issued by the China National Intellectual Property Administration (CNIPA), including one China Design Silver Award and three China Patent Excellence Awards (invention patent). We were listed among the Top100 Global Innovators by Clarivate for three consecutive years between 2019 and 2021.

Xiaomi Intellectual Right Protection Platform
https://www.mi.com/intellectual

Trademark and Brand Equity

In 2021, we released the *Brand Usage and Management System of Xiaomi Corporation (Trial)*, which defined the requirements of the compliant use of our trademarks, trademark rights confirmation and trademark rights protection, to prevent the infringement of Xiaomi's brand and trademark.

- Compliant use of Xiaomi trademark: We have established a global trademark name screening mechanism to avoid potential infringement, and carried out specific training for overseas employees on trademark screening going abroad;

- Trademark rights confirmation: We have established a trademark application system to conduct forward-looking and hierarchical applications around the world. We also had a trademark monitoring system and devised a dispute resolution strategy to monitor and take necessary actions for preemptive trademark registration by third-parties;

- Trademark rights protection: We have established a full anti-counterfeiting rights protection system to monitor third-party products sold online and offline. In case of any trademark infringement, we strive to stop the counterfeiting of registered trademarks, corporate names and domain names. This includes online and offline complaints, investigations from Civil Service, legal proceedings, filings of intellectual property rights of customs at home and abroad, training and investigation, global collaboration, etc.

In addition, we carried out rights protections against the fraudulent use, abuse and embezzlement of our brand rights this year:

- Through the governance projects of overseas platforms, we removed over 120 thousand infringing links, closed 516 fake accounts on overseas social medias, 18 infringing domain names and eight apps in 2021;

- We assisted the customs in preventing the import and export of counterfeits, confiscated over 290 thousand counterfeit products during 2021;

- We assisted government agencies in legal cases of counterfeiting, and investigated and dealt with over 3,000 counterfeit products.

3.4.6 Compliance on Advertising

Xiaomi complies with applicable laws, regulations and practices, including the *Advertising Law of the People's Republic of China, Regulations on Control of Advertisement, Interim Measures for the Administration of Internet, Personal Information Protection Law of the People's Republic of China,* etc. The responsible departments in Xiaomi jointly manage compliance of advertisements and strictly control the qualification of advertising providers, advertising content and quality of our products and services. Abiding by the source material specifications and audit requirements of each publishing platform, we provide compliant advertising content and corresponding legal qualification and relevant verification materials, and release the advertisement after reviewed by the platform.

To ensure advertising compliance, we conduct multi-dimensional scrutiny covering organizational structure, capability enhancement, partnership management and detailed project execution, to investigate and avoid relevant risks. We also have a complaint mechanism to investigate any feedback, to improve our advertisement management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.5 Social Responsibility

Xiaomi is committed to its corporate mission of "let everyone in the world enjoy a better life through innovative technology." At the same time, our core value "sincerity and passion" inspires us to give back to society through donations that support education, poverty alleviation, emergency disaster relief, and other causes.

3.5.1 Technology for a Better Future

Xiaomi cares about people, and endeavors to fulfill their diverse needs through technology innovation. In the fields of accessibility for the disabled and disaster warning systems, we have been exploring new technology applications and optimizing management models in a bid to better serve society.

Accessibility

Xiaomi began exploring the adoption of accessibility function into its products in 2013. In 2020, we officially entered the era of "Accessibility 2.0" where our efforts in the field were significantly upgraded to offer better business and services, wider ecosystem, and greater accountability. In 2021, we have furthered upgraded the accessibility features of our products by improving quality control and optimizing user experience.

<u>Quality Improvement</u>

We officially published the Measures for the *Administration on Accessibility Adaptation in Software of Xiaomi Corporation*, which incorporated accessibility quality control procedures into our business management standard, covering all smartphone software applications that Xiaomi independently or jointly developed.

<u>User Experience Optimization</u>

We continue to optimize the accessibility features of our products, to improve user experience according to the special needs for different groups of people:

- Physically disabled users: We optimized voice control in MIUI to provide more accurate voice recognition and more precise control of products;

- Hearing impaired users: We developed an ambient sound recognition feature in MIUI, which recognizes specific sounds (such as fire alarms, sirens, and knocking on doors). A notification alerts the user to the detected sound via vibration and on the display screen.

Features for the Elderly

Xiaomi understands the daily needs of the elderly. In 2021, we conducted a survey on the needs of senior citizens, and we upgraded special features for the elderly in our AI Assistant "小愛同學," including:

- Voice control: Uses voice command to make calls and display health QR codes and digital QR code for payment;
- Smart reminder: Closely tends to the daily needs of the elderly, by reminding them of tasks such as taking medication, drinking water, and measuring vital signs including blood pressure.

This year, our Redmi 9A series smartphones obtained "Elderly Care" certification from Tell Certification Center (TLC).

Emotional Care

User companionship and emotional care are two of our priorities. Through cooperation with teams of university psychology scholars, we combined theoretical knowledge and specialized technology, to make our AI Assistant smarter in identifying and understanding user emotions and responding appropriately. In 2021, our major upgrades included:

- Emotional understanding: Six categories and 45 subcategories of emotions have been identified, with 92% accuracy in emotions recognition;
- Emotional response: For the 45 identified emotion subcategories, verbal responses have been optimized to capture users emotions. Virtual image interaction was also added and combined with other formats such as texts, tags, audios and multimedia, increasing users' willingness to interact by 70%.

Standard Setting

In 2021, we took the lead in forming *Technology of Elderly-oriented Intelligent Household Appliances — Part 5: Special Requirements for Televisions*, and participated in formulating four published industry standards, including *Technology of Elderly-oriented smart Household Appliances — Part 1: General Requirements, Technical Requirements of Mobile Terminals Suitability for Elderly Persons, Testing Method of Mobile Terminal Suitability for the Elderly and Technical Requirements for Elderly-oriented Consideration of Smart Television.*

Accessibility Activities

In May 2021, we held the first "Xiaomi Accessibility Week" and a technology innovation competition to deepen our employees' understanding of the needs of people with disabilities and encourage employees to incorporate the concept of accessibility into their daily work.

"Accessibility for Users"

In our inaugural "Xiaomi Accessibility Week", we invited the AI voice label team to work at the Beijing Xiaomi Science and Technology Park. The event included accessibility training sessions to promote communications between employees and people with disabilities, helping our employees to understand the needs of the latter, and increasing employees' awareness to incorporate accessibility concepts into products and services. More than 6 thousand employees joined the event.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

"Endless and Boundless Innovation"

In October 2021, Xiaomi hosted its second Hackathon technology competition to unlock employees' creativity and encourage them to apply technology for the betterment of society. Among the 55 ideas produced, nine of them addressed social issues such as mental health, accessibility, elderly-friendly designs, etc.

(For more information, please visit the accessibility website https://accessibility.miui.com/)

Disaster Warning

In 2021, we upgraded our natural disaster warning system and earthquake early warning system, and expanded their coverage:

- The earthquake early warning system covers more than 90% of the densely populated seismic regions across China. In 2021, the system successfully generated 50 warnings of earthquakes above 4.0 magnitudes through smartphones and TVs and sent more than 10 million alerts to users;

- In cooperation with the National Early Warning Center and National Emergency Broadcasting, our smartphones and smart TVs are capable of pushing 13 types of disaster warnings across China. In 2021, we generated over 60 thousand red and orange warnings, issuing more than 220 thousand alerts to users.

Smartphone Earthquake Monitoring Network

In 2021, in cooperation with the Institute of Care-Life, we launched China's first smartphone earthquake monitoring system, making every smartphone user a "mobile earthquake detector". When a Xiaomi smartphone user activates the monitoring function, the system promptly processes earthquake data through AI algorithms using low-power seismic wave sensors. The system sends alerts to users in affected areas immediately, saving every minute for their personal safety. As of December 31, 2021, over 87 thousand smartphone users have voluntarily activated this function.

3.5.2 Social Responsibility

Our growth would not be possible without the support we receive from society, and we give back to society by donation through Beijing Xiaomi Foundation and Xiaomi Foundation Limited. In 2021, the Group donated approximately RMB100 million to charitable activities.

Talent Development

Xiaomi attaches great importance to the growth and development of our future talents. In 2021, for the second consecutive year, we sponsored outstanding college students and those in need through our Xiaomi Scholarships program established by the Beijing Xiaomi Foundation. We also initiated a special research fund in an effort to encourage talents in science and technology space to pursue innovative projects.

"Xiaomi Scholarships" Program

Since 2020, Beijing Xiaomi Foundation has established Xiaomi Scholarships at numerous universities. By the end of 2021, Xiaomi Scholarship program has covered 30 universities in China and aided more than 1,500 students.

"Xiaomi Special Fund for Innovative Future" jointly set up with Tsinghua University

In 2021, Xiaomi Foundation Limited established the "Xiaomi Special Fund for Innovative Future" at Tsinghua University, to support cutting-edge research and course development in fields such as AI, robotics, medical health.

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"Mi Fan" Volunteers

In April 2021, Beijing Xiaomi Foundation, along with Mi Community and 12 non-profit organizations, donated more than RMB210 thousand and launched 14 charitable activities sponsored and organized by Mi Fans in 12 cities across China. A total of 422 Mi Fan volunteers signed up for a variety of charitable events, such as caring for exceptional children, planting trees, visiting the elderly, organizing hiking trips for the visually impaired, and sponsoring job-search training for college students. The volunteer services exceeded 1,000 hours.

Xiaomi Fundraising Platform for Charities

Launched officially in November 2021, Xiaomi Fundraising Platform for Charities is committed to providing Mi Fans and users with services that allow more direct participation in charitable initiatives. The platform's charitable donations cover educational assistance, emergency disaster relief, rural revitalization, medical assistance, and more.

Helping Those in Need

Emergency Disaster Relief

In 2021, Beijing Xiaomi Foundation made several donations for emergency disaster relief. We donated a total of more than RMB70 million in funds and supplies to help with disaster relief as well as post-disaster reconstruction in mainland China.

Furthermore, Xiaomi Foundation Limited donated a total of EUR1.3 million for emergency relief and post-disaster reconstruction in response to overseas natural disasters, including the floods in Germany, Belgium and the Netherlands, volcanic eruptions in Spain and typhoons in the Philippines and Malaysia.

Helping Those in Distress

In 2021, we donated approximately RMB700 thousand of supplies and funds through Beijing Xiaomi Foundation to school-age children and children in poverty-stricken areas.

Supporting Children from Impoverished Households

Though Beijing Xiaomi Foundation, we donated RMB250 thousand to the Red Cross Society of Luotian County in Hubei Province, to help children from impoverished families in mountainous regions to realize their dreams of attending schools. So far, the program has sponsored 245 children.

Employment for People with Disabilities

We support employment programs for people with disabilities in various ways. In 2021, the proportion of disabled employees in our overseas customer service center in Guangzhou reached 15%. In the same year, the center was awarded the "Outstanding Contributor to the Promotion of Employment of Disabled Persons," jointly issued by the Guangdong Accessibility Promotion Association and the Guangdong Foundation for Disabled Persons.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. Key Performance Indicators[8]

4.1 Key Performance Indicators — Environmental

Based on our current operations, our resource and energy consumption and pollutant discharge mainly take place in the areas as follows: office parks, direct-operated Mi Homes in mainland China, the Yizhuang Smart Factory, self-operated warehouses, and self-operated data center. Our environmental performance in 2021 is summarized as follows.

	2021	2020[9]
Consumption		
Total Comprehensive Energy Consumption (MWh)[10]	**144,626.56**	118,397.58
Direct Energy Consumption (MWh)	**8,691.42**	5,586.69
Indirect Energy Consumption (MWh)	**135,935.14**	112,810.89
Total GHG Emissions (Scope 1 and Scope 2) (metric tons)[11]	**82,820.16**	66,481.29
Direct GHG Emissions (Scope 1) (metric tons)	**9,096.95**	8,402.12
Indirect GHG Emissions (Scope 2) (metric tons)	**73,723.21**	58,079.17
Total Water Consumption (metric tons)[12]	**463,663.00**	303,132.92
Running Water Consumption (metric tons)	**329,572.00**	187,339.02
Reclaimed Water Consumption (metric tons)	**134,091.00**	115,793.90
Non-hazardous Waste (metric tons)	**6,328.88**	4,661.07
Hazardous Waste (metric tons)	**2.50**	0.37
Total Packaging Materials used for Finished Products (metric tons)[13]	**51,172.55**	46,808.15

8 Numbers and percentage figures have been subject to rounding. Any discrepancy between the total and the sum of the amounts listed is due to rounding.

9 We work relentlessly to improve the data quality in completeness, consistency and accuracy. In accordance with the requirements of ISO14064-1:2018 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals, we made revisions on our 2020 environmental data (energy and GHG). The revisions include additions of data from the Yizhuang Smart Factory, self-operated warehouse, satellite offices in mainland China, and offices in India, as well as operation-related fugitive emissions. Where applicable, we also selected emission factors from local sources over international references for GHG emission calculation for the purpose of higher precision.

10 The total comprehensive energy consumption was calculated based on the consumption of purchased electricity, purchased heat, natural gas and diesel, and the conversion factors from General Rules for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2020), a national standard in the People's Republic of China. Direct energy consumption includes those from natural gas and diesel for corporate operation. Indirect energy consumption includes those from purchased electricity and purchased heat for corporate operation.

11 The Group's GHG emissions include direct emissions (Scope 1) and indirect emissions (Scope2), covering all offices, Yizhuang Smart Factory, self-operated warehouses, self-operated data center, and direct-operated Mi Homes in mainland China, and overseas offices. Direct GHG emissions (Scope 1) include GHG emissions generated from natural gas and diesel for operations and fugitive emissions from refrigeration, fire suppression equipment and wastewater treatment system. Indirect GHG emissions (Scope 2) include GHG emissions generated from purchased electricity and purchased heat for operations. The preparation and quality control of activity data and selection of emission factors are in accordance with The GHG Protocol: Corporate Accounting and Reporting Standard, ISO14064-1:2018 Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals, and applicable national, local and industry standards. Where applicable, direct measurement is preferred source for data activity, and local emission factor is preferred, over the order of regional, industrial, national, and international. The Group's GHG inventory includes carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and hydrofluorocarbons (HFCs). The GHG emissions data for the year ended December 31, 2021 is presented in carbon dioxide equivalent.

12 The water used by the Group includes running water and reclaimed water from the city water supply.

13 The total amount of packaging materials used for finished products includes those used by Xiaomi's smartphones, smart TVs, and smart hardware products.

	2021	2020
Intensity		
Office Areas in Mainland China		
Total Energy Consumption per Floor Area (MWh/m^2)	**0.21**	0.20
Total Energy Consumption per Capita (MWh/person)	**3.04**	4.51
Total GHG Emissions per Floor Area (metric tons/m^2)	**0.09**	0.11
Total GHG Emissions per Capita (metric tons/person)	**1.74**	2.53
Running Water Consumption per Capita (metric tons/person)	**9.26**	9.77
Non-hazardous Waste per Capita (metric tons/person)	**0.20**	0.24
Hazardous Waste per Capita (metric tons/person)	**0.00**	0.00
Yizhuang Smart Factory		
Total Energy Consumption per Floor Area (MWh/m^2)	**0.19**	0.11
Total Energy Consumption per Capita (MWh/person)	**22.73**	19.06
Total GHG Emissions per Floor Area (metric tons/m^2)	**0.10**	0.07
Total GHG Emissions per Capita (metric tons/person)	**12.40**	11.48
Running Water Consumption per Capita (metric tons/person)	**35.74**	51.92
Non-hazardous Waste per Capita (metric tons/person)	**0.26**	0.19
Hazardous Waste per Capita (metric tons/person)	**0.00**	0.00
Direct-operated Mi Homes in Mainland China		
Total Energy per Floor Area (MWh/m^2)	**0.20**	0.21
Total GHG Emissions per Floor Area (metric tons/m^2)	**0.13**	0.12
Others		
Package Materials used for Finished Products Intensity (metric tons/RMB million)	**0.16**	0.19

4.2 Key Performance Indicators — Social

4.2.1 Employees

	2021	2020
Total Employee Headcount[14]	**35,415**	24,810
By Employment Type		
Full-time	**33,427 (94.39%)**	22,074 (88.97%)
Other Types	**1,988 (5.61%)**	2,736 (11.03%)

14 Total employee headcount includes the headcounts of full-time employees and employees who are engaged in a direct employment relationship with the Company, including part-time and intern.

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	2021	2020
Total Full-time Employee Headcount	33,427	22,074
By Gender		
Male	**22,222 (66.48%)**	14,539 (65.86%)
Female	**11,205 (33.52%)**	7,535 (34.14%)
By Age Group		
Under 30	**14,605 (43.69%)**	10,446 (47.32%)
30–50	**18,556 (55.51%)**	11,510 (52.14%)
Over 50	**266 (0.80%)**	118 (0.53%)
By Professional Category		
Technical	**14,592 (43.65%)**	10,484 (47.49%)
Non-technical	**18,835 (56.35%)**	11,590 (52.51%)
By Job Level		
Senior	**306 (0.92%)**	250 (1.13%)
Mid-level	**12,183 (36.45%)**	7,385 (33.46%)
Junior	**20,938 (62.64%)**	14,439 (65.41%)
By Geographic Region		
Mainland China	**30,943 (92.57%)**	20,409 (92.46%)
Hong Kong, Macau, and Taiwan, China	**172 (0.51%)**	177 (0.80%)
Other Asian Countries and Regions	**1,683 (5.03%)**	1,203 (5.45%)
European Countries and Regions	**613 (1.83%)**	278 (1.26%)
North American Countries and Regions	**16 (0.05%)**	6 (0.03%)
Oceania Countries and Regions	**0 (0.00%)**	1 (0.00%)

4.2.2 Employee Turnover[15]

	2021	2020
Total Turnover Rate	12.82%	12.36%
By Gender		
Male	**12.07%**	11.97%
Female	**14.30%**	13.11%
By Age Group		
Under 30	**15.11%**	13.33%
30–50	**11.06%**	11.21%
Above 50	**9.40%**	39.83%
By Geographic Region		
Mainland China	**12.81%**	12.27%
Overseas	**12.92%**	13.51%

[15] Employee turnover rate = the number of employees who leave employment in the reporting year / the total number of employees at year end * 100%.

4.2.3 *Incidence of Work Injuries*

Year	No. of Work-related Fatality	Work-related Fatality Rate[16]	Working days lost due to work-related injury (days)[17]
2021	**0**	**0.00%**	**500**
2020	1[18]	0.0045%	469
2019	0	0.00%	422

4.2.4 *Training and Development*

	2021
Percentage of Employee Trained	**97.42%**
By Gender	
Male	**97.29%**
Female	**97.68%**
By Job Level	
Senior	**87.84%**
Mid-level	**96.82%**
Junior	**97.91%**
Average Training Hours	**25.76**
By Gender	
Male	**25.94**
Female	**25.39**
By Job Level	
Senior	**15.31**
Mid-level	**18.85**
Junior	**29.94**

16 Work-related fatality rate = total number of work-related fatalities / total number of employees at year end x 100%.

17 Work-related injury data refer to the work-related death and injury accidents determined by local bureaus of Human Resources and Social Security.

18 Caused by a traffic accident

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4.2.5 Number of Complaints on Products and Services

	Number of Responsible Customer Complaints	Resolution Rate of Responsible Customer Complaints Within 72 Hours	Resolution Rate of Responsible Customer Complaints Without a Time Limit
Mainland China			
2021	**80,119**	**89.92%**	**99.93%**
2020	106,280	85.60%	99.72%
Overseas			
2021	**8,217**	**80.45%**	**100.00%**
2020	8,245	65.38%	100.00%

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Xiaomi Corporation (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 186 to 341, comprise:

- the consolidated balance sheet as of December 31, 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

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INDEPENDENT AUDITOR'S REPORT

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("**IESBA Code**"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss"
- Impairment assessment of goodwill

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and fair value determination for unlisted securities classified as "long-term investments measured at fair value through profit or loss" Refer to Note 3.3 and Note 20 to the consolidated financial statements. During the year ended December 31, 2021, the Group recognized fair value changes on the following investments in profits or losses: (i) equity investments in unlisted companies other than those accounted for using equity method, and (ii) convertible redeemable preferred shares or ordinary shares with preferential rights investments in unlisted companies (collectively the "**Unlisted Securities**"), amounting to RMB10,442,606,000 and RMB25,103,626,000, respectively. The total amount of Unlisted Securities as of December 31, 2021 was RMB35,546,232,000, accounting for 12% of the Group's total assets.	We understood and evaluated the key controls over the capturing, measurement and recording of the Unlisted Securities investments and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors of related accounting estimate. For the classification and initial recognition of the Unlisted Securities, we have performed the following procedures: (1) We checked relevant legal documents such as shareholder agreements, share purchase agreements and articles of association of the investees on a sample basis to understand the commercial rationale for these Unlisted Securities investments; (2) We evaluated management's analysis on contract terms and assessed the reasonableness of management's accounting treatments on a sample basis.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The classification and initial recognition of the Unlisted Securities require management to analyze certain complex contract terms and make judgments to determine the classifications of the above financial assets, based on the Group's business models of managing these financial assets and the contractual terms of the cash flows. The Group identified its various rights and evaluated the financial impacts based on key terms from relevant legal documents. Management engaged an external valuer to assist to determine the fair value of these Unlisted Securities. The fair value determination of such Unlisted Securities required management to make judgments and estimates, including the appropriateness of using various unobservable inputs. We focused on this area due to the significance of the balances of these investments and their related fair value gain or loss for the year, as well as management judgments, assumptions and estimations involved in the initial recognition and fair value determination of the Unlisted Securities which are subject to high degree of estimation uncertainty and high level of inherent risk factors.	For the assessment of fair value determination of the Unlisted Securities, we involved our internal valuation specialists to perform the following procedures: (1) We assessed the objectivity, independence and competence of the external valuer engaged by the Group; (2) We interviewed management and understood the underlying assumptions and inputs used in fair value determination of Unlisted Securities; (3) We assessed the reasonableness of assumptions, estimates and inputs used in fair value determination of Unlisted Securities, including expected volatility, risk-free interest rate, discounted for lack of marketability; (4) We recalculated the fair values of Unlisted Securities on a sample basis; and (5) We tested the accuracy of the fair value changes on investments measured at fair value through profit or loss for the year on a sample basis. We found the judgments, assumptions and estimations made by management in relation to the initial recognition and fair value determination of the Unlisted Securities to be supportable based on the available evidences.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill Refer to Note 4(e) "Critical accounting estimates and assumptions" and Notes 16 to the consolidated financial statements. As of December 31, 2021, the Group's goodwill resulting from the acquisition of Zimi International Incorporation ("**Zimi**") amounted to approximately RMB1,382,143,000 and management has performed an annual impairment assessment on such goodwill. To assess the impairment, management has determined the recoverable amount of Zimi, a standalone cash generating unit ("**CGU**"), based on its value in use ("**VIU**") calculations using the discounted cash flow model with assistance from an independent professional valuer. Based on the result of the assessment, management has concluded that no impairment provision was required for the year ended December 31, 2021. We focused on this area due to the significance of the carrying amount of goodwill and given that significant judgement and estimates were involved in determining the key assumptions (in particular the revenue growth rate, sales margin, terminal growth rate and discount rate) for the impairment assessment.	In response to this key audit matter, we have performed the following procedures: (1) We obtained an understanding of the management's assessment process of goodwill impairment and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors; (2) We evaluated management's identification of CGUs and allocation of goodwill based on the Group's accounting policy and our understanding of the Group's business; (3) We evaluated the objectivity, independence and competence of the external valuer engaged by the Group; (4) We assessed the appropriateness of the valuation model with the assistance of our internal valuation expert; (5) We assessed the reasonableness of the key assumptions and estimates as adopted by management in the discounted cash flow model for the impairment assessment (primarily with respect to the revenue growth rate, sales margin, terminal growth rate and discount rate) by reference to external industry data, the Group's historical and subsequent sales and margin information, etc.;

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
	(6) We tested the mathematical accuracy of the calculations of the discounted cash flow model and the recoverable amount of the CGU; (7) We evaluated the sensitivity analysis prepared by management around the key assumptions and estimates to assess the potential impact of a range of possible outcomes; and (8) We assessed the adequacy of related disclosures in the consolidated financial statements. Based on the procedures performed, we considered the key judgements and estimates adopted by management in the impairment assessment of goodwill are supported by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yuen Kwok Sun.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 22, 2022

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2021

(Expressed in Renminbi ("RMB"))

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Revenue	6	**328,309,145**	245,865,633
Cost of sales	9	**(270,048,204)**	(209,113,771)
Gross profit		**58,260,941**	36,751,862
Research and development expenses	9	**(13,167,088)**	(9,256,139)
Selling and marketing expenses	9	**(20,980,765)**	(14,539,400)
Administrative expenses	9	**(4,738,919)**	(3,746,449)
Fair value changes on investments measured at fair value through profit or loss	20(vii)	**8,132,133**	13,173,479
Share of net profits of investments accounted for using the equity method	12(b)	**275,013**	1,380,904
Other income	7	**826,856**	642,930
Other losses, net	8	**(2,579,507)**	(372,458)
Operating profit		**26,028,664**	24,034,729
Finance income	11	**1,229,826**	963,555
Finance costs	11	**(2,841,457)**	(3,364,852)
Profit before income tax		**24,417,033**	21,633,432
Income tax expenses	13	**(5,133,798)**	(1,320,722)
Profit for the year		**19,283,235**	20,312,710
Attributable to:			
— Owners of the Company		**19,339,321**	20,355,504
— Non-controlling interests		**(56,086)**	(42,794)
		19,283,235	20,312,710
Earnings per share (expressed in RMB per share):	14		
Basic		**0.78**	0.85
Diluted		**0.76**	0.83

The notes on pages 194 to 341 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

(Expressed in RMB)

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Profit for the year		**19,283,235**	20,312,710
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss			
Share of other comprehensive loss of investments accounted for using the equity method	12(b)	**(60,568)**	(14,250)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		**—**	(4,773)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		**(2,649)**	(3,385)
Currency translation differences		**(313,151)**	(307,757)
Item that will not be reclassified subsequently to profit or loss			
Currency translation differences		**(1,027,846)**	(2,032,656)
Other comprehensive loss for the year, net of tax		**(1,404,214)**	(2,362,821)
Total comprehensive income for the year		**17,879,021**	17,949,889
Attributable to:			
— Owners of the Company		**17,940,990**	17,986,452
— Non-controlling interests		**(61,969)**	(36,563)
		17,879,021	17,949,889

The notes on pages 194 to 341 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As of December 31, 2021

(Expressed in RMB)

	Note	As of December 31, 2021 RMB'000	2020 RMB'000
Assets			
Non-current assets			
Property and equipment	15	6,964,621	6,305,657
Intangible assets	16	5,579,159	4,265,619
Investments accounted for using the equity method	12(b)	10,230,751	12,781,995
Long-term investments measured at fair value through profit or loss	20	50,113,702	35,215,319
Deferred income tax assets	35	1,661,947	2,011,072
Long-term bank deposits	25(c)	16,195,419	9,608,677
Long-term investments measured at amortized cost	20	351,362	232,798
Other non-current assets	18	15,943,508	6,975,851
		107,040,469	77,396,988
Current assets			
Inventories	24	52,397,946	41,670,719
Trade receivables	22	17,985,503	10,161,019
Loan receivables	21	5,109,034	8,919,088
Prepayments and other receivables	23	19,851,884	16,181,520
Bills receivables measured at fair value through other comprehensive income		14,033	200,000
Short-term investments measured at fair value through other comprehensive income	20	710,865	797,456
Short-term investments measured at amortized cost	20	1,597,919	—
Short-term investments measured at fair value through profit or loss	20	29,311,848	22,376,387
Short-term bank deposits	25(c)	31,041,129	17,598,946
Restricted cash	25(b)	4,319,661	3,625,257
Cash and cash equivalents	25(a)	23,511,579	54,752,443
		185,851,401	176,282,835
Total assets		292,891,870	253,679,823
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	26	407	409
Reserves		137,212,499	123,691,287
		137,212,906	123,691,696
Non-controlling interests		219,590	321,819
Total equity		137,432,496	124,013,515

CONSOLIDATED BALANCE SHEET

As of December 31, 2021

(Expressed in RMB)

	Note	As of December 31, 2021 RMB'000	2020 RMB'000
Liabilities			
Non-current liabilities			
Borrowings	34	20,719,790	10,634,806
Deferred income tax liabilities	35	1,202,717	300,556
Warranty provision		895,747	802,590
Other non-current liabilities	30	16,913,649	10,001,428
		39,731,903	21,739,380
Current liabilities			
Trade payables	31	74,643,005	72,198,856
Other payables and accruals	32	20,224,499	13,619,655
Advance from customers	33	9,289,177	11,999,086
Borrowings	34	5,527,050	6,961,937
Income tax liabilities		2,335,124	674,298
Warranty provision		3,708,616	2,473,096
		115,727,471	107,926,928
Total liabilities		155,459,374	129,666,308
Total equity and liabilities		292,891,870	253,679,823

The notes on pages 194 to 341 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 186 to 341 were approved by the Board of Directors on March 22, 2022 and were signed on its behalf:

Lei Jun

Lin Bin

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2021		409	(36,224)	64,655,891	8,158,661	50,912,959	123,691,696	321,819	124,013,515
Comprehensive income									
Profit for the year		–	–	–	–	19,339,321	19,339,321	(56,086)	19,283,235
Other comprehensive loss									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive loss of investments accounted for using the equity method	12(b)	–	–	–	(60,568)	–	(60,568)	–	(60,568)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(2,649)	–	(2,649)	–	(2,649)
Currency translation differences	27	–	–	–	(307,268)	–	(307,268)	(5,883)	(313,151)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	27	–	–	–	(1,027,846)	–	(1,027,846)	–	(1,027,846)
Total comprehensive income		–	–	–	(1,398,331)	19,339,321	17,940,990	(61,969)	17,879,021
Transactions with owners in their capacity as owners									
Purchase of own shares	26	–	(7,006,824)	–	–	–	(7,006,824)	–	(7,006,824)
Cancellation of shares	26	(5)	6,699,318	(6,699,313)	–	–	–	–	–
Release of ordinary shares from Share Scheme Trusts	26	–	–	698,434	(682,802)	–	15,632	–	15,632
Share of other reserves of investments accounted for using the equity method	12(b)	–	–	–	379,814	–	379,814	–	379,814
Employees share-based compensation scheme:									
– value of employee services	29	–	–	–	1,792,841	–	1,792,841	145	1,792,986
– exercise of share options and restricted stock units	29	3	–	649,543	(568,233)	–	81,313	–	81,313
Share consideration for acquisition of Zimi International Incorporation ("**Zimi**")	39(a)	–	–	413,071	(86,502)	–	326,569	–	326,569
Appropriation to statutory reserves	27	–	–	–	929,149	(929,149)	–	–	–
Appropriation to general reserves	27	–	–	–	21,176	(21,176)	–	–	–
Others		–	–	–	(9,125)	–	(9,125)	(40,405)	(49,530)
Total transactions with owners in their capacity as owners		(2)	(307,506)	(4,938,265)	1,776,318	(950,325)	(4,419,780)	(40,260)	(4,460,040)
Balance at December 31, 2021		407	(343,730)	59,717,626	8,536,648	69,301,955	137,212,906	219,590	137,432,496

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2021

(Expressed in RMB)

		Attributable to owners of the Company							
	Note	Share capital RMB'000	Treasury shares RMB'000	Share premium RMB'000	Other reserves (Note 27) RMB'000	Retained earnings RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at January 1, 2020		388	(1,052,822)	43,578,836	8,031,146	30,773,026	81,330,574	327,102	81,657,676
Comprehensive income									
Profit for the year		–	–	–	–	20,355,504	20,355,504	(42,794)	20,312,710
Other comprehensive loss									
Items that may be reclassified subsequently to profit or loss									
Share of other comprehensive loss of investments accounted for using the equity method	12(b)	–	–	–	(14,250)	–	(14,250)	–	(14,250)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate		–	–	–	(4,773)	–	(4,773)	–	(4,773)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income		–	–	–	(3,385)	–	(3,385)	–	(3,385)
Currency translation differences	27	–	–	–	(313,988)	–	(313,988)	6,231	(307,757)
Item that will not be reclassified subsequently to profit or loss									
Currency translation differences	27	–	–	–	(2,032,656)	–	(2,032,656)	–	(2,032,656)
Total comprehensive income		–	–	–	(2,369,052)	20,355,504	17,986,452	(36,563)	17,949,889
Transactions with owners in their capacity as owners									
Purchase of own shares	26	–	(454,872)	–	–	–	(454,872)	–	(454,872)
Cancellation of shares	26	–	1,345,663	(1,349,709)	–	–	(4,046)	–	(4,046)
Release of ordinary shares from Share Scheme Trusts	26	–	125,807	687,235	(783,805)	–	29,237	–	29,237
Share of other reserves of investments accounted for using the equity method	12(b)	–	–	–	207,140	–	207,140	–	207,140
Employees share-based compensation scheme:									
– value of employee services	29	–	–	–	1,978,166	–	1,978,166	280	1,978,446
– exercise of share options and restricted stock units	29	4	–	1,511,225	(1,179,339)	–	331,890	–	331,890
Capital injection from non-controlling interests		–	–	–	–	–	–	31,000	31,000
Share consideration for acquisition of an associate		1	–	320,384	320,384	–	640,769	–	640,769
Issuance of convertible bonds (equity component)	34(c)	–	–	–	1,764,799	–	1,764,799	–	1,764,799
Issuance of shares upon placement	26	16	–	19,907,920	–	–	19,907,936	–	19,907,936
Appropriation to statutory reserves	27	–	–	–	182,626	(182,626)	–	–	–
Appropriation to general reserves	27	–	–	–	32,945	(32,945)	–	–	–
Others		–	–	–	(26,349)	–	(26,349)	–	(26,349)
Total transactions with owners in their capacity as owners		21	1,016,598	21,077,055	2,496,567	(215,571)	24,374,670	31,280	24,405,950
Balance at December 31, 2020		409	(36,224)	64,655,891	8,158,661	50,912,959	123,691,696	321,819	124,013,515

The notes on pages 194 to 341 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

(Expressed in RMB)

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Cash generated from operations	36(a)	12,227,783	23,831,802
Income tax paid		(2,442,495)	(1,953,302)
Net cash generated from operating activities		9,785,288	21,878,500
Cash flows from investing activities			
Capital expenditures		(7,169,313)	(3,025,523)
Proceeds from disposal of property and equipment	36(b)	35,365	63,088
Placement of short-term bank deposits		(67,310,919)	(37,650,395)
Withdrawal of short-term bank deposits		53,409,119	41,212,622
Placement of long-term bank deposits		(8,808,779)	(9,018,520)
Proceeds from maturity of long-term bank deposits		431,993	—
Purchase of short-term investments measured at fair value through profit or loss		(169,186,373)	(195,282,061)
Proceeds from maturity of short-term investments measured at fair value through profit or loss		162,808,867	189,410,595
Purchase of short-term investments measured at fair value through other comprehensive income		(1,167,454)	(1,544,640)
Proceeds from maturity of short-term investments measured at fair value through other comprehensive income		1,232,523	742,090
Purchase of investments measured at amortized cost		(4,672,448)	(570,394)
Proceeds from maturity of investments measured at amortized cost		2,905,762	341,527
Interest income received		1,228,830	1,052,389
Investment income received		687,736	637,901
Purchase of long-term investments measured at fair value through profit or loss		(12,882,628)	(7,534,492)
Proceeds from disposal of long-term investments measured at fair value through profit or loss		1,857,274	4,632,047
Purchase of investments accounted for using the equity method		(215,847)	(1,309,560)
Proceeds from disposal of investments accounted for using the equity method		2,665,212	6,345
Acquisition of subsidiaries, net of cash acquired	39	(1,086,477)	38,517
Dividends received		229,612	119,612
Net cash used in investing activities		(45,007,945)	(17,678,852)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

(Expressed in RMB)

	Note	Year ended December 31, 2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		22,528,578	30,582,175
Repayment of borrowings		(13,301,236)	(32,586,382)
Finance expenses paid		(659,987)	(499,711)
Placement of restricted cash		—	(531,369)
Withdrawal of restricted cash		500,000	807,192
Contribution from fund investors		3,471,000	3,398,000
Net proceeds from exercise of share options		83,014	254,476
Payments for shares repurchase		(7,006,824)	(454,872)
Payment of lease liabilities		(1,115,859)	(493,899)
Capital contribution from non-controlling interests		—	31,000
Issuance of convertible bonds, net of issuance costs		—	5,801,022
Issuance of shares upon placement		—	19,907,936
Net cash generated from financing activities		4,498,686	26,215,568
Net (decrease)/increase in cash and cash equivalents		(30,723,971)	30,415,216
Cash and cash equivalents at the beginning of the year	25(a)	54,752,443	25,919,861
Effects of exchange rate changes on cash and cash equivalents		(516,893)	(1,582,634)
Cash and cash equivalents at the end of the year	25(a)	23,511,579	54,752,443

The notes on pages 194 to 341 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information

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

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

Lei Jun is the ultimate controlling shareholder of the Company as of the date of approval of these consolidated financial statements.

The regulations in mainland China restrict foreign ownership of companies that provide internet services, e-commerce and value-added telecommunications services, etc., which include certain activities and services operated by the Group. In order to enable certain foreign companies to make investments into these businesses of the Group, the Company controls certain controlled structured entities through contractual arrangements. On August 25, 2010, a wholly owned subsidiary of the Company, Xiaomi Communications Co., Ltd. ("**Xiaomi Communications**", a wholly foreign-owned enterprise) had entered into a series of contractual arrangements (the "**Contractual Arrangements**") with Xiaomi Inc. and its equity holders, which enable Xiaomi Communications and the Group to:

- govern the financial and operating policies of Xiaomi Inc.;
- exercise equity holders' voting rights of Xiaomi Inc.;
- receive substantially all of the economic interest returns generated by Xiaomi Inc. in consideration for the business support, technical and consulting services provided by Xiaomi Communications;
- obtain an irrevocable and exclusive right to purchase all or part of the equity interests in Xiaomi Inc. from its respective equity holders at a minimum purchase price when it is permitted under laws and regulations in mainland China. Xiaomi Communications may exercise such options at any time until it has acquired all equity interests of Xiaomi Inc.; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 General information (continued)

- obtain a pledge over the entire equity interests of Xiaomi Inc. from its respective equity holders as collateral security for all of Xiaomi Inc.'s payments due to Xiaomi Communications and to secure performance of Xiaomi Inc.'s obligation under the Contractual Arrangements.

As a result of the Contractual Arrangements, the Group has rights to exercise power over Xiaomi Inc. and its subsidiaries, receives variable returns from its involvement in Xiaomi Inc. and its subsidiaries, has the ability to affect those returns through its power over Xiaomi Inc. and its subsidiaries and is considered to control Xiaomi Inc. and its subsidiaries. Consequently, the Company regards Xiaomi Inc. and its subsidiaries as controlled structured entities and consolidated the assets, liabilities and results of operations of Xiaomi Inc. and its subsidiaries in the consolidated financial information of the Group.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Xiaomi Inc. and its subsidiaries. Uncertainties presented by the legal system in mainland China could impede the Group's beneficiary rights of the results, assets and liabilities of Xiaomi Inc. and its subsidiaries. The directors of the Company, based on the advice of its legal counsel, consider that the Contractual Arrangements among Xiaomi Communications, Xiaomi Inc. and its equity holders are in compliance with the relevant laws and regulations in mainland China and are legally binding and enforceable.

Other Contractual Arrangements were also executed for other operating companies in mainland China established by the Group similar to Xiaomi Inc. subsequently. All of these operating companies are treated as controlled structured entities of the Company and their financial statements have also been consolidated by the Company. See details in Note 12(a).

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended December 31, 2021 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(a) Subsidiaries controlled through Contractual Arrangements

There are entities controlled by the Group under Contractual Arrangements. The Group does not have legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as controlled structured entities of the Group, and their assets, liabilities and results are consolidated in the Group's consolidated financial statements.

(b) Business combination

The Group applies the acquisition method to account for business combinations except for business combination under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(b) Business combination (continued)

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired in the case of a bargain purchase, the difference is recognized directly in the profit or loss.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination within all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income ("**OCI**") are reclassified to profit or loss, or transferred to another category of equity as specified/permitted by applicable IFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries (including controlled structured entities) are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial information of the investee's net assets including goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

(a) Investments in associates in the form of ordinary shares

Investments in associates in the form of ordinary shares are accounted for using the equity method of accounting in accordance with IAS 28 "Investments in Associates and Joint Ventures". Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in these associates include goodwill identified on acquisition, net of any accumulated impairment loss. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is treated as goodwill.

If the ownership interest in an associate in the form of ordinary shares is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to consolidated income statement where appropriate.

The Group's share of the associates' post-acquisition profit or loss is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investments in the associate are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and includes the amount in "other losses, net" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the consolidated income statement.

2 Summary of significant accounting policies (continued)

2.3 Associates (continued)

(b) Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares

Investments in associates in the form of ordinary shares with preferential rights or convertible redeemable preferred shares are accounted as financial assets measured at fair value through profit or loss (Note 2.10).

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer that makes strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The functional currency of the Company is United States dollar ("**US$**"). The Company's primary subsidiaries were incorporated in mainland China and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within mainland China, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement. Foreign exchange gains and losses are presented in the consolidated income statement within "other losses, net".

Translation differences on non-monetary financial assets and liabilities are recognized in profit or loss as part of the fair value changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter
— Electronic equipment	3–10 years
— Office equipment	2–5 years
— Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress mainly represents office buildings under construction, which is stated at actual construction cost less accumulated impairment losses. Construction in progress is transferred to appropriate categories of property and equipment upon the completion of their respective construction and depreciated over their respective estimated useful lives.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other losses, net" in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.7 Investment properties

Investment properties, principally freehold office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is recognized so as to write off the cost of investment properties to their residual values over their estimated useful lives of 38 to 40 years by using the straight-line method.

2.8 Intangible assets

(a) Goodwill

Goodwill arises from the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) License

License includes third-party payment license and other licenses. Third-party payment license represents the license issued by the People's Republic of China government authorities that enable the Group to operate third-party payment business. Other licenses mainly include the licenses to use certain intellectual properties purchased from third parties. These acquired licenses are shown at historical cost. License that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. Others are amortized over their estimated useful lives of 1 to 10 years using straight-line method.

2 Summary of significant accounting policies (continued)

2.8 Intangible assets (continued)

(c) Trademarks, patents and domain name

Separately acquired trademarks, patents and domain name are shown at historical cost. Trademarks, patents and domain name acquired in a business combination are recognized at fair value at the acquisition date. Trademarks, patents and domain name have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks, patents and domain name over their estimated useful lives of 1 to 16 years.

(d) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognized and measured at costs incurred to acquire and bring them to use. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, and recorded within operating expenses in the consolidated income statement.

(e) Research and development expenditures

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalized as intangible assets when recognition criteria are fulfilled. These criteria include:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use ("**VIU**"). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

See Note 19 for details of each type of financial asset.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.10.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are recorded in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.2 Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

- Fair value through other comprehensive income ("**FVOCI**"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other losses, net. Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other losses, net.

- Fair value through profit or loss ("**FVPL**"): Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognized in profit or loss and presented net in the consolidated income statement within other losses, net in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in the consolidated income statement. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.3 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Impairment on other financial assets, mainly including loan receivables, other receivables, term bank deposits, long-term investments measured at amortized cost and short-term investments measured at amortized cost or fair value through other comprehensive income, is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

2.10.4 Derecognition

Financial assets

The Group derecognizes a financial asset, if the part being considered for derecognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; or (ii) the contractual rights to receive the cash flows of the financial asset have been transferred, the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through" requirements) and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognized in profit or loss:

- the carrying amount of the financial asset transferred; and

- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability.

2 Summary of significant accounting policies (continued)

2.10 Financial assets (continued)

2.10.4 Derecognition (continued)

Asset-backed securities

As part of its operations, the Group securitizes financial assets, generally through the sale of these assets to special purpose vehicles which issue securities to investors. Further details on prerequisites for derecognition of financial assets are set out above. When the securitization of financial assets that qualify for derecognition, the relevant financial assets are derecognized in their entirety and a new financial asset or liability is recognized regarding the interest in the unconsolidated securitization vehicles that the Group acquired. When the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognized, and the consideration paid by third parties are recorded as a financial liability; when the securitization of financial assets that partially qualify for derecognition, the book value of the transferred asset should be recognized between the derecognized portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognized portion and the total consideration received from the derecognized portion shall be recorded in profit or loss.

2.11 Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9; and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, assembly cost and other direct costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion, applicable variable selling expense and related tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from outsourcing partners for raw material delivered in the ordinary course of business and value-added tax and other tax recoverable. They are generally due for settlement within one year and therefore all classified as current.

Trade and other receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. See Note 2.10.3 for a description of the Group's impairment policies for trade and other receivables.

2.14 Loan receivables

Loan receivables held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the assets and subsequently measured at amortized cost using the effective interest method, less credit loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in the profit or loss. The loss allowance is recognized in profit or loss. See Note 2.10.3 for a description of the Group's impairment policy for loan receivables.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2 Summary of significant accounting policies (continued)

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

A financial liability is derecognized when the obligation under the liability is discharged, canceled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.21 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in the consolidated income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the income tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2 Summary of significant accounting policies (continued)

2.21 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current income tax assets against current income tax liabilities and where the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.22 Employee benefits

(a) Pension obligations

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") for the eligible employees in Hong Kong. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds. The Group's contributions to MPF Scheme are expensed as incurred.

The Group's subsidiaries operating in mainland China have to make contribution to staff retirement scheme managed by local government authorities in accordance with the relevant rules and regulations. The contributions borne by the Group under the government mandated multi-employer defined contribution scheme are principally determined based on certain percentages of the salaries of employees, subject to certain ceilings. Contributions to these schemes are charged to the consolidated income statement as and when incurred and not reduced by contributions forfeited by those who leave the plans prior to vesting fully in the contributions. The Group has no legal or constructive obligations to pay further contributions.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Bonus plans

The expected cost of bonuses is recognized as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

2.23 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates share incentive plan, under which it receives services from employees as consideration for equity instruments (restricted shares units ("**RSUs**") and options) of the Company. The fair value of the services received in exchange for the grant of the equity instruments (RSUs and options) is recognized as an expense on the consolidated income statement with a corresponding increase in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.23 Share-based payment (continued)

(a) Equity-settled share-based payment transactions (continued)

In terms of the RSUs and options awarded to employees, the total amount to be expensed is determined by reference to the fair value of equity instruments (RSUs and options) granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Service and non-marketing performance conditions are included in calculation of the number of RSUs and options that are expected to vest. The total amount expensed is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of RSUs and options that are expected to vest based on the non-marketing performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new ordinary shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

(b) Cash-settled share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is with recognition of a corresponding liability. The liability is re-measured at each reporting date up to and at the date of settlement, with any changes in fair value recognized in profit or loss for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.24 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(a) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to six years. The Group revaluates its estimates on an annual basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

2.25 Revenue recognition

The Group principally derives revenue from sales of products and provision of internet services.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods sold or services performed, stated net of discounts, returns and value-added taxes. The Group recognizes revenue when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of products

Revenue from the sales of products (mainly including smartphones, IoT and lifestyle products) directly to customers, is recognized when control of the goods has been transferred, being when the products are accepted by the customers. The customers have full discretion over the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(a) Sales of products (continued)

Customers in mainland China have an unconditional right to return the products purchased online within 7 days. The Group bases its estimates of sales return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(b) Internet services

Internet services mainly comprise advertising services and internet value-added services.

(i) Advertising services

Advertising revenues comprise mainly display-based and performance-based advertisements.

Revenue from display-based advertisements to the users of smartphones and other devices is recognized on a straight-line basis over the contracted period with customers in which the advertisements are displayed.

Revenue from performance-based advertisements is recognized based on actual performance measurement. The Group recognizes the revenue from the delivery of (i) per-click when the users click on the content, (ii) per-impression when the advertising contents are displayed to users, or (iii) per-download when the third parties' apps are downloaded by users.

(ii) Internet value-added services

The Group recognizes the internet value-added services revenue (including online game and fintech business) on a gross or net basis depending on whether the Group is acting as a principal or an agent in the transaction. For online game, the Group also defers the related revenue, over the estimated user relationship periods, given there is an explicit or implicit obligation of the Group to maintain the relevant applications and allow users to have access to them.

Fintech business

The Group's fintech revenues are primarily consist of financial interest income and intermediary services income.

The Group generates financial interest income from provision of loan services through its own online internet finance platform. Financial interest income is recognized over the terms of loan receivables using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.25 Revenue recognition (continued)

(b) Internet services (continued)

(ii) Internet value-added services (continued)

Fintech business (continued)

The Group also provides intermediary services to the borrowers and third party funding parties (as the lenders). The Group are determined as neither the legal lender nor the legal borrower in the loan origination and repayment process. Therefore, the Group does not record loans receivable and payable arising from the loans between lenders and borrowers. The Group acts as an agent to facilitate such loans. The Group considers the loan facilitation and post-lending management services as distinct performance obligations because both the borrowers and lenders can benefit from the loan facilitation services and post-lending management services on their own, and those services are clearly stated in the contract and are separately identifiable, they are not integrated or interrelated with each other, and do not significantly affect each other. For intermediary services with a financial guarantee obligation, the Group first allocates the total transaction price to the financial guarantee liability, then the remaining consideration is allocated to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach; for intermediary services with no financial guarantee obligation, the Group allocates the total consideration to loan facilitation and post-lending management services on the basis of the relative standalone selling prices, determined by using the cost plus margin approach. Revenues from loan facilitation services are recognized at point-in-time upon the successful matching between the borrowers and the lenders. Revenues from post-lending management services are recognized ratably over the terms of the underlying loans as the performance obligation is satisfied over time.

Determining whether revenue of the Group should be reported gross or net is based on a continuing assessment of various factors. When determining whether the Group is acting as the principal or agent in offering goods or services to the customer, the Group needs to first identify who controls the specified goods or services before they are transferred to the customer. The Group is a principal if the Group obtains control through any of the following: (i) a good or another asset from the other party that the Group then transfers to the customer; (ii) a right to a service to be performed by the other party, which gives the Group the ability to direct that party to provide the service to the customer on the Group's behalf; (iii) a good or service from the other party that the Group then combines with other goods or services in providing the specified good or service to the customer. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2 Summary of significant accounting policies (continued)

2.26 Interest income

Interest income on financial assets at amortized cost and financial assets at fair value through other comprehensive income calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.27 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.28 Dividend income

Dividends are received from financial assets measured at fair value through profit or loss and at fair value through other comprehensive income. Dividends are recognized as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognized in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

2.29 Government grants

Grants from government are recognized at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the property and equipment, and other non-current assets are included in the liabilities and are credited to consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.30 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;

2 Summary of significant accounting policies (continued)

2.30 Leases (continued)

- amounts expected to be payable by the Group under residual value guarantees;

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

2 Summary of significant accounting policies (continued)

2.30 Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of cloud servers are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The transactions of the Company are denominated and settled in its functional currency, US$. The Group's subsidiaries operate in mainland China and overseas, and they are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US$ and RMB. Therefore, foreign exchange risk primarily arose from recognized assets and liabilities in the Group's subsidiaries in mainland China when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to overseas business partners, and recognized assets and liabilities in the Group's overseas subsidiaries when receiving or to receive foreign currencies from, or paying or to pay foreign currencies to business partners in mainland China.

For the Group's subsidiaries whose functional currency is RMB, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2021 would have been approximately RMB152,246,000 (2020: RMB233,314,000) higher/lower, as a result of net foreign exchange gains (2020: net foreign exchange gains) on translation of net monetary liabilities (2020: net monetary liabilities) denominated in US$.

For the Company and the Group's subsidiaries whose functional currency is US$, if RMB had strengthened/weakened by 5% against US$ with all other variables held constant, the profit before income tax for the year ended December 31, 2021 would have been approximately RMB70,048,000 (2020: RMB11,743,000) lower/higher, as a result of net foreign exchange losses on translation of net monetary liabilities denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk primarily arose from borrowings with floating and fixed rates (details of which has been disclosed in Note 34), long-term investments measured at amortized cost, long-term bank deposits, short-term investments measured at fair value through other comprehensive income, short-term investments measured at amortized cost, loan receivables, short-term bank deposits and cash and cash equivalents. Those carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk.

If the interest rate of borrowings with floating rate had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2021 would have been approximately RMB26,255,000 (2020: RMB12,412,000) lower/higher. This analysis does not include the effect of interest capitalized.

If the interest rate of cash and cash equivalents had been 50 basis points higher/lower, the profit before income tax for the year ended December 31, 2021 would have been RMB117,558,000 (2020: RMB273,762,000) higher/lower.

The fair value interest rate risk arises from financial assets and liabilities carried at fixed rates is not significant for the Group.

The Group regularly monitors its interest rate risk to ensure there is no undue exposure to significant interest rate movements.

(iii) Price risk

The Group is exposed to price risk primarily in respect of the long-term investments and short-term investments held by the Group and classified in the balance sheet as at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from the investments, the Group diversifies its portfolio. Each investment is managed by senior management on a case by case basis. The sensitivity analysis is performed by management, see Note 3.3 for detail.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group is exposed to credit risk in relation to its long-term investments measured at amortized cost, long-term bank deposits, loan receivables, trade receivables, other receivables, short-term investments measured at amortized cost, short-term investments measured at fair value through other comprehensive income, short-term investments measured at fair value through profit or loss, short-term bank deposits, restricted cash, cash and cash equivalents, and financial guarantee contracts. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage risk arising from cash and cash equivalents, long-term bank deposits, short-term bank deposits, restricted cash, short-term investments measured at fair value through profit and loss and bills receivables measured at fair value through other comprehensive income, the Group only transacts with state-owned or reputable financial institutions in mainland China and reputable international financial institutions outside of mainland China. There has been no recent history of default in relation to those financial institutions.

For short-term investments measured at fair value through other comprehensive income, long-term investments measured at amortized cost and short-term investments measured at amortized cost, mainly including debt securities whose contractual cash flows are solely principal and interest, management makes periodic collective assessments as well as individual assessment on the recoverability based on historical settlement records and past experiences. In view of the sound rating of bond issuers, management believes that the credit risk inherent in those investments due from them is not significant.

To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers is usually no more than 180 days and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of the history of cooperation with debtors and the sound collection history of receivables due from them, management believes that the credit risk inherent in the Group's outstanding other receivable balances due from them is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

For the financial guarantee contracts, the Group has taken measures to manage credit risk, including credit examination, fraud examination and risk monitoring alert. The maximum credit risk from financial guarantee contracts is RMB1,165,679,000 as of December 31, 2021 (2020: RMB1,605,679,000), the majority of which are not credit-impaired on initial recognition and no significant increase in credit risk subsequently. The Group has recognized loss allowance for such losses at each of the reporting date.

To manage risk arising from loan receivables, the Group performs standardized credit management procedures. For pre-approval investigation, the Group uses its platform and systems using big data technology to optimize the review process, including credit analysis, assessment of collectability of borrowers, possibility of misconduct and fraudulent activities. In terms of credit examining management, the Group has established specific policies and procedures to assess loans offering. For subsequent monitoring, the Group has implemented credit examination on each borrower every three months. For unqualified borrowers, credit facilities granted previously could be terminated immediately. Once the loan was issued, all borrowers would be assessed by fraud examination model to prevent fraudulent behaviors. In post-loan supervision, the Group has established risk monitoring alert system through periodical monitoring, system alert, and corresponding solutions to identify impaired loans. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ("**PD**"), Exposure at Default ("**EAD**") and Loss Given Default ("**LGD**"). This is similar to the approach used for the purposes of measuring Expected Credit Loss ("**ECL**") under IFRS 9.

(b1) Expected credit loss model for loan receivables, as summarized below:

- The loan receivables that are not credit-impaired on initial recognition are classified in 'Stage 1' and have their credit risk continuously monitored by the Group. The expected credit loss is measured on a 12-month basis.

- If a significant increase in credit risk (as defined below) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The expected credit loss is measured on lifetime basis.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

- If the financial instrument is credit-impaired (as defined below), the financial instrument is then moved to 'Stage 3'. The expected credit loss is measured on lifetime basis.

- In Stages 1 and 2, interest income is calculated on the gross carrying amount (without deducting the loss allowance). If a financial asset subsequently becomes credit-impaired (Stage 3), the Group is required to calculate the interest income by applying the effective interest method in subsequent reporting periods to the amortized cost of the financial asset (the gross carrying amount net of loss allowance) rather than the gross carrying amount.

The impairment of loan receivables was provided based on the 'three-stages' model by referring to the changes in credit quality since initial recognition.

The key judgments and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

(1) Significant increase in credit risk (SICR)

The Group considers loan receivables to have experienced a significant increase in credit risk when backstop criteria has been met. A backstop is applied and the loan receivables considered to have experienced a significant increase in credit risk if the borrower is more than 1 day past due on its contractual payments.

(2) Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when the borrower is more than 90 days past due on its contractual payments. This has been applied to all loan receivables held by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(3) Measuring ECL — Explanation of inputs, assumptions and estimation techniques

The expected credit loss is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each portfolio. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summarized. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(4) Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Group has performed historical analysis and identified the per capita disposable income of urban residents as the key economic variables impacting credit risk and expected credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b1) Expected credit loss model for loan receivables, as summarized below (continued):

(5) Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modeled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

(b2) Credit loss allowance

The credit loss allowance recognized in the year is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to loan receivables experiencing significant increases (or decreases) of credit risk in the year, and the subsequent "step up" (or "**step down**") between 12-month and lifetime ECL;

- Additional allowances for new financial instruments recognized, as well as releases for loan receivables derecognized in the year;

- Loan receivables derecognized and write-offs of allowances related to assets that were written off during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2021	297,219	302,340	2,209,525	2,809,084
Transfers:				
Transfer from Stage 1 to Stage 2	(538)	11,238	—	10,700
Transfer from Stage 1 to Stage 3	(3,486)	—	82,415	78,929
Transfer from Stage 2 to Stage 3	—	(78,835)	89,569	10,734
Change in PDs/LGDs/EADs	(401)	1	12,092	11,692
Loan receivables derecognized during the year	(291,916)	(211,359)	(996,932)	(1,500,207)
New loan receivables originated	123,304	66,165	136,623	326,092
Write-offs	—	—	(754,600)	(754,600)
Loss allowance as of December 31, 2021	124,182	89,550	778,692	992,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The following tables explain the changes in the credit loss allowance for loan receivables between the beginning and the end of the year due to these factors: (continued)

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Loss allowance as of January 1, 2020	198,089	400,085	1,071,563	1,669,737
Transfers:				
Transfer from Stage 1 to Stage 2	(435)	21,467	—	21,032
Transfer from Stage 1 to Stage 3	(55,454)	—	483,776	428,322
Transfer from Stage 2 to Stage 3	—	(270,561)	336,764	66,203
Change in PDs/LGDs/EADs	366	1	1,334	1,701
Loan receivables derecognized during the year	(141,868)	(137,378)	(34,261)	(313,507)
New loan receivables originated	296,521	288,726	1,351,141	1,936,388
Write-offs	—	—	(1,000,792)	(1,000,792)
Loss allowance as of December 31, 2020	297,219	302,340	2,209,525	2,809,084

Significant changes in the gross carrying amount of loan receivables that contributed to changes in the loss allowance were as follows:

The new loan receivables originated during the year ended December 31, 2021, due to the optimized risk strategy of the Group, decreased by 50% (2020: 22%). With the decrease of the gross carrying amount in Stage 3, loss allowance measured on lifetime basis decreased by RMB1,430,833,000 for the year ended December 31, 2021 (2020: increased by RMB1,137,962,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b2) Credit loss allowance (continued)

The gross carrying amount of the loan receivables explains their significance to the changes in the credit loss allowance as discussed above:

	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Total RMB'000
Gross carrying amount as of January 1, 2021	9,000,485	379,063	2,348,624	11,728,172
Transfers:				
Transfer from Stage 1 to Stage 2	(12,864)	12,864	—	—
Transfer from Stage 1 to Stage 3	(85,924)	—	85,924	—
Transfer from Stage 2 to Stage 3	—	(93,282)	93,282	—
Loan receivables derecognized during the year other than write-offs	(8,881,273)	(271,443)	(1,099,335)	(10,252,051)
New loan receivables originated	5,185,101	77,206	142,392	5,404,699
Write-offs	—	—	(779,362)	(779,362)
Gross carrying amount as of December 31, 2021	5,205,525	104,408	791,525	6,101,458
Gross carrying amount as of January 1, 2020	12,733,684	532,975	1,126,581	14,393,240
Transfers:				
Transfer from Stage 1 to Stage 2	(26,210)	26,210	—	—
Transfer from Stage 1 to Stage 3	(516,986)	—	516,986	—
Transfer from Stage 2 to Stage 3	—	(359,596)	359,596	—
Loan receivables derecognized during the year other than write-offs	(12,193,029)	(179,471)	(38,288)	(12,410,788)
New loan receivables originated	9,003,026	358,945	1,433,549	10,795,520
Write-offs	—	—	(1,049,800)	(1,049,800)
Gross carrying amount as of December 31, 2020	9,000,485	379,063	2,348,624	11,728,172

There is no originated credit-impaired loan receivables of the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

(b3) Write-off policy

The Group writes off loan receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity.

The Group may write off loan receivables that are still subject to enforcement activity. The outstanding contractual amounts of loan receivables written off during the year ended December 31, 2021 was RMB779,362,000 (2020: RMB1,049,800,000). The Group still seeks to recover amounts it is legally owed in full, but which have been written off due to no reasonable expectation of full recovery.

(b4) Modification

The Group rarely modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery. The Group considers the impact from such modification is not significant.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents or adjust financing arrangements to meet the Group's liquidity requirements. There are loan covenants terms for certain borrowings. As of December 31, 2021, there is no non-compliance with such loan covenants (2020: Nil).

The table below analyzes the Group's non-derivative financial liabilities and off-balance sheet guarantee liabilities into relevant maturity grouping based on the remaining year at each balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	Less than 1 year RMB'000	Between 1 year and 2 years RMB'000	Between 2 years and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
At December 31, 2021					
Borrowings	**6,118,187**	**1,550,750**	**5,192,677**	**19,309,820**	**32,171,434**
Trade payables	**74,643,005**	**—**	**—**	**—**	**74,643,005**
Other payables	**14,609,004**	**—**	**—**	**—**	**14,609,004**
Lease liabilities	**1,150,605**	**1,072,857**	**708,259**	**495,533**	**3,427,254**
Liabilities to fund investors	**—**	**—**	**—**	**14,892,666**	**14,892,666**
Off-balance sheet guarantee liabilities	**1,030,985**	**—**	**—**	**—**	**1,030,985**
At December 31, 2020					
Borrowings	7,488,113	1,226,928	2,391,847	10,635,713	21,742,601
Trade payables	72,198,856	—	—	—	72,198,856
Other payables	9,731,586	—	—	—	9,731,586
Lease liabilities	418,984	254,025	255,581	67,290	995,880
Liabilities to fund investors	—	—	—	9,364,533	9,364,533
Off-balance sheet guarantee liabilities	1,468,521	—	—	—	1,468,521

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group monitors capital (including share capital and share premium) by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares. In the opinion of the directors of the Company, the Group has operating profits and a low level of indebtedness. As a result, capital risk is not significant for the Group and measurement of capital management is not a tool currently used in the internal management reporting procedures of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation

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

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

The following table presents the Group's financial assets that are measured at fair value at December 31, 2021:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	4,296,065	—	45,817,637	50,113,702
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	29,311,848	29,311,848
Short-term investments measured at fair value through other comprehensive income (Note 20)	710,865	—	—	710,865
Bills receivables measured at fair value through other comprehensive income	—	—	14,033	14,033
	5,006,930	—	75,143,518	80,150,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Long-term investments measured at fair value through profit or loss (Note 20)	6,377,087	—	28,838,232	35,215,319
Short-term investments measured at fair value through profit or loss (Note 20)	—	—	22,376,387	22,376,387
Short-term investments measured at fair value through other comprehensive income (Note 20)	797,456	—	—	797,456
Bills receivables measured at fair value through other comprehensive income	—	—	200,000	200,000
	7,174,543	—	51,414,619	58,589,162

(a) **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at each of the reporting dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. The amounts of net fair value losses for level 1 investments for the year ended December 31, 2021 is RMB811,247,000 (2020: net fair value gains RMB4,838,194,000).

(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.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3

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

Specific valuation techniques used to value financial instruments include:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of long-term investments measured at fair value through profit or loss for the years ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**28,838,232**	17,028,273
Acquisition of subsidiaries (Note 39)	**56,890**	—
Additions	**12,553,789**	6,257,421
Disposals	**(1,135,038)**	(355,967)
Changes in fair value	**8,248,140**	7,655,853
Transfer to long-term investments accounted for using the equity method	**(936,913)**	(94,327)
Transfer to level 1 financial instruments	**(975,148)**	(710,852)
Transfer to short-term investments measured at fair value through profit or loss	**(411,558)**	—
Exchange losses	**(420,757)**	(942,169)
At the end of the year	**45,817,637**	28,838,232
Net unrealized gains for the year	**8,115,939**	7,491,689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments of short-term investments measured at fair value through profit or loss for the years ended December 31, 2021 and 2020:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	22,376,387	16,463,390
Acquisition of subsidiaries (Note 39)	253,322	—
Additions	169,186,373	195,282,061
Disposals	(163,496,603)	(190,048,496)
Changes in fair value	695,240	679,432
Transfer from long-term investments measured at fair value through profit or loss	411,558	—
Exchange losses	(114,429)	—
At the end of the year	29,311,848	22,376,387
Net unrealized gains for the year	87,425	79,921

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

The valuation of the level 3 instruments mainly included long-term investments measured at fair value through profit or loss in unlisted companies and certain listed companies for which sale is restricted for a specified period (Note 20), and short-term investments measured at fair value through profit or loss (Note 20). 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 or market approach etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

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

Description	Fair values		Significant unobservable inputs	Range of inputs		Relationship of unobservable inputs to fair values
	As of December 31,			As of December 31,		
	2021	2020		2021	2020	
	RMB'000	RMB'000				
Long-term investments measured at fair value through profit or loss	45,817,637	28,838,232	Expected volatility	34%–77%	28%–71%	The higher the expected volatility, the lower the fair value
			Discount for lack of marketability ("DLOM")	10%–30%	10%–25%	The higher the DLOM, the lower the fair value
			Risk-free rate	0.1%–5%	0.1%–5%	The higher the risk-free rate, the higher the fair value
Short-term investments measured at fair value through profit or loss	29,311,848	22,376,387	Expected rate of return	1%–5%	1%–7%	The higher the expected rate of return, the higher the fair value

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

If the fair values of the long-term investments and short-term investments measured at fair value through profit or loss held by the Group had been 10% higher/lower, the profit before income tax for the year ended December 31, 2021 would have been approximately RMB7,942,555,000 (2020: RMB5,759,171,000) higher/lower.

There were no material transfers between level 1, 2 and 3 of fair value hierarchy classifications during the year ended December 31, 2021, except that certain financial assets were transferred out of level 3 of fair value hierarchy to level 1 classifications due to the conversion to ordinary shares as the result of the initial public offering or lifting of sale restriction of the investee companies.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial assets

Fair value of financial assets, in the absence of an active market, is estimated by using appropriate valuation techniques. Such valuations were based on certain assumptions about credit risk, volatility and liquidity risks associated with the instruments, which are subject to uncertainty and might materially differ from the actual results. Further details are included in Note 3.3.

(b) Impairment of loan receivables

The Group follows the guidance of IFRS 9 to determine when a loan receivable is impaired. This determination requires significant judgment and estimation. In making this judgment and estimation, the Group evaluates, among other factors, the duration of receivables and the financial health, collection history of individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measures, changes in macroeconomic indicators etc. Further details are included in Note 3.1 to the consolidated financial statements.

(c) Current and deferred income taxes

The Group is subject to income taxes in different jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group assesses the likelihood that the deferred income tax assets could be recovered. Deferred tax assets are recognized based on the Group's estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

4 Critical accounting estimates and judgments (continued)

(d) Inventory provision

Inventories are stated at the lower of cost and net realizable value. Management makes provision for inventories based on historical experience and estimation of future market condition and sales. Management will adjust the provision where actual net realizable value is higher or lower than previously estimated. This requires significant judgment and estimation.

(e) Recoverability of non-financial assets and investments accounted for using the equity method

The Group tests annually whether goodwill has suffered any impairment. Goodwill and other non-financial assets, mainly including property and equipment, intangible assets, investment properties, right-of-use assets as well as investments accounted for using the equity method are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount of non-financial assets is the greater of its fair value less costs of disposal and value in use. In determining fair values, various applicable valuation techniques (e.g. discounted cash flows or market approach) are used, with significant unobservable inputs including expected volality, discount for lack of marketability and risk free rates, etc. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgment relating to level of revenue, operating costs and discount rates.

Judgment is required to identify any impairment indicators existing for any of the Group's goodwill, other non-financial assets to determine appropriate impairment approaches, i.e., fair value less costs of disposal or value in use, for impairment review purposes, and to select key assumptions applied in the adopted valuation models, including discounted cash flows and market approach. Changing the assumptions selected by management in assessing impairment could materially affect the result of the impairment test and in turn affect the Group's financial condition and results of operations. If there is a significant adverse change in the key assumptions applied, it may be necessary to take additional impairment charge to the consolidated income statements.

(f) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of products sold under warranty, historical and anticipated rates of warranty claims on those products, and estimated cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate.

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(Expressed in RMB unless otherwise indicated)

4 Critical accounting estimates and judgments (continued)

(g) Revenue

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, significant judgments include determining whether the Group is acting as the principal in a transaction. The Group is a principal in a transaction if the Group obtains control of the products sold or services provided before they are transferred to customers. If control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, the Group records revenues on a gross basis. Otherwise, the Group records the net amount earned as commissions from products sold or services provided.

5 Segment information

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

5 Segment information (continued)

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

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

There were no material inter-segment sales during the years ended December 31, 2021 and 2020. The revenues from external customers reported to the CODM are measured in a manner consistent with that applied in the consolidated income statement.

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5 Segment information (continued)

The segment results for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31, 2021				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	208,868,944	84,980,097	28,211,739	6,248,365	328,309,145
Cost of sales	(184,007,856)	(73,888,603)	(7,316,598)	(4,835,147)	(270,048,204)
Gross profit	24,861,088	11,091,494	20,895,141	1,413,218	58,260,941

	Year ended December 31, 2020				
	Smartphones RMB'000	IoT and lifestyle products RMB'000	Internet services RMB'000	Others RMB'000	Total RMB'000
Segment revenues	152,190,891	67,410,453	23,755,285	2,509,004	245,865,633
Cost of sales	(138,986,944)	(58,804,839)	(9,111,002)	(2,210,986)	(209,113,771)
Gross profit	13,203,947	8,605,614	14,644,283	298,018	36,751,862

The reconciliation of gross profit to profit before income tax is shown in the consolidated income statement.

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5 Segment information (continued)

For the years ended December 31, 2021 and 2020, the geographical information on the total revenues is as follows:

	Year ended December 31,			
	2021		2020	
	RMB'000	%	RMB'000	%
Mainland China	164,717,704	50.2	123,484,251	50.2
Rest of the world (Note (a))	163,591,441	49.8	122,381,382	49.8
	328,309,145		245,865,633	

Note:

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

The major customers which contributed more than 10% of the total revenue of the Group for the years ended December 31, 2021 and 2020 are listed as below:

	Year ended December 31,	
	2021	2020
	%	%
Customer A	13.7	10.5

All the revenues derived from other single external customer were less than 10% of the Group's total revenues for the years ended December 31, 2021 and 2020.

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6 Revenue

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Smartphones	208,868,944	152,190,891
IoT and lifestyle products	84,980,097	67,410,453
Internet services	28,211,739	23,755,285
Others	6,248,365	2,509,004
	328,309,145	245,865,633

7 Other income

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Government grants	185,915	304,024
Dividend income	169,679	81,407
Value-added tax and other tax refunds	165,895	115,443
Others	305,367	142,056
	826,856	642,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

8 Other losses, net

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Gains on partial disposal of investments accounted for using the equity method (Note 12(b))	2,189,687	280,011
Foreign exchanges losses, net	(483,287)	(693,222)
Impairment on investments accounted for using the equity method (Note 12(b))	(3,868,006)	(25,977)
Remeasurement loss for an associate in step-up acquisition (Note 39(a))	(409,257)	—
Others	(8,644)	66,730
	(2,579,507)	(372,458)

9 Expenses by nature

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Cost of inventories sold and royalty fees	251,459,641	192,440,437
Provision for impairment of inventories (Note 24)	2,831,529	3,688,809
Employee benefit expenses (Note 10)	13,821,526	9,914,453
Depreciation of property and equipment, right-of-use assets and investment properties (Note 15, 17, 18)	1,804,312	1,042,895
Amortization of intangible assets (Note 16)	1,257,334	665,566
Promotion and advertising expenses	7,245,809	5,477,287
Content fees to game developers and video providers	2,812,893	2,418,008
Credit loss allowance for loan receivables	21,413	1,757,680
Consultancy and professional service fees	1,429,688	980,462
Cloud service, bandwidth and server custody fees	1,810,655	1,980,323
Warranty expenses	4,550,168	2,823,897
Auditor's remuneration		
— Audit services	56,116	56,865
— Non-audit services	34,920	31,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 Expenses by nature (continued)

During the year ended December 31, 2021, the Group incurred expenses for the purpose of research and development of approximately RMB13,167,088,000 (2020: RMB9,256,139,000), which comprised employee benefits expenses of RMB7,271,628,000 (2020: RMB5,341,494,000). No significant development expenses had been capitalized during the year (2020: Nil).

10 Employee benefit expenses

	Year ended December 31,	
	2021 RMB'000	2020 RMB'000
Wages, salaries and bonuses	9,396,137	6,170,601
Share-based compensation expenses (Note (i) and Note 29)	2,035,569	2,328,319
Contributions to pension plans	970,814	423,044
Other social security costs, housing benefits and other employee benefits	1,419,006	992,489
	13,821,526	9,914,453

Note:

(i) Share-based compensation expenses contain the expenses for share-based awards granted to the Group's employees and the expenses for Xiaomi Development Fund ("**Employee Fund**").

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10 Employee benefit expenses (continued)

(a) Pensions — defined contribution plans

During the year ended December 31, 2021, no forfeited contributions were utilised by the Group to reduce its contributions for the current year (2020: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group do not include any director of the Company for the year ended December 31, 2021 and include one director of the Company for year ended December 31, 2020. All of these individuals have not received any emolument from the Group as an inducement to join the Group or compensation for loss of office during the years ended December 31, 2021 and 2020. The emoluments payable to the five highest paid individuals during the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Wages and salaries	13,585	8,736
Share-based compensation expenses	276,145	267,190
Contributions to pension plans	212	60
Discretionary bonuses	3,858	2,032
Other social security costs, housing benefits and other employee benefits	311	168
	294,111	278,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 Employee benefit expenses (continued)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	Year ended December 31,	
	2021	2020
Hong Kong dollar ("**HK$**")30,500,001 to HK$31,000,000	1	—
HK$31,500,001 to HK$32,000,000	—	1
HK$35,000,001 to HK$35,500,000	—	1
HK$37,000,001 to HK$37,500,000	1	—
HK$59,500,001 to HK$60,000,000	—	1
HK$64,500,001 to HK$65,000,000	1	—
HK$70,500,001 to HK$71,000,000	1	—
HK$86,500,001 to HK$87,000,000	—	1
HK$99,000,001 to HK$99,500,000	—	1
HK$150,500,001 to HK$151,000,000	1	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(c) Benefits and interests of directors

The remuneration of every director is set out below:

During the year ended December 31, 2021:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive Directors						
LEI, Jun	—	—	—	—	—	—
LIN, Bin	—	—	—	—	—	—
CHEW, Shou Zi (i)	—	—	—	—	—	—
LIU, De	—	—	—	—	—	—
Non-executive Directors						
LIU, Qin	—	—	—	—	—	—
Independent non-executive Directors						
CHEN, Dongsheng	498	—	—	—	—	498
WONG, Shun Tak (ii)	913	—	—	—	—	913
TONG Wai Cheung Timothy (iii)	913	—	—	—	—	913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(c) Benefits and interests of directors (continued)

During the year ended December 31, 2020:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Executive Directors						
LEI, Jun	–	–	–	–	–	–
LIN, Bin	–	–	–	–	–	–
CHEW, Shou Zi (i)	–	–	–	–	–	–
Non-executive Directors						
LIU, Qin	–	–	–	–	–	–
Independent non-executive Directors						
CHEN, Dongsheng	445	–	–	–	–	445
WONG, Shun Tak (ii)	891	–	–	–	–	891
TONG Wai Cheung Timothy (iii)	891	–	–	–	–	891

Notes:

(i) Chew Shou Zi has resigned as an Executive Director with effect from March 24, 2021.

(ii) HK$500,000 was paid to Mr. Wong Shun Tak during the years ended December 31, 2021 and 2020 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

(iii) HK$500,000 was paid to Prof. Tong Wai Cheung Timothy during the years ended December 31, 2021 and 2020 in connection with his service as director or other service in respect of management of the affairs of the Company's subsidiary undertakings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

10 Employee benefit expenses (continued)

(d) Directors' termination benefits

No director's termination benefit subsisted as of December 31, 2021 and 2020 or at any time during all the years presented.

(e) Consideration provided to third parties for making available directors' services

No consideration provided to third parties for making available directors' services subsisted as of December 31, 2021 and 2020 or at any time during all the years presented.

(f) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors subsisted as of December 31, 2021 and 2020 or at any time during all the years presented.

(g) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as of December 31, 2021 and 2020 or at any time during all the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

11 Finance income and costs

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Finance income:		
Interest income from bank deposits	1,229,826	963,555

Interest income mainly represents interest income from bank deposits, including bank balances and term deposits.

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Finance costs:		
Interest expense from liabilities to fund investors (Note 30)	2,057,133	2,892,323
Interest expense from borrowings (Note 34) and lease liabilities (Note 17)	804,087	497,006
Less: amount capitalized	(19,763)	(24,477)
	2,841,457	3,364,852

Finance costs have been capitalized on qualifying assets at average interest rates of 4.11% per annum for the year ended December 31, 2021 (2020: 4.94%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2021	2020		
Subsidiaries							
Directly held:							
Xiaomi H.K. Limited	Hong Kong, limited liability company	April 7, 2010	HK$10,000	100%	100%	100%	Wholesale and retail of smartphones and ecosystem partners' products
Fast Pace Limited	British Virgin Islands, limited liability company	January 8, 2013	US$2	100%	100%	100%	Investment holding and investment activities
Xiaomi Ventures Limited	British Virgin Islands, limited liability company	March 21, 2013	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Singapore Pte. Ltd.	Singapore, limited liability company	December 23, 2013	Singapore Dollar ("**SGD**")1 and US$641,879,420	100%	100%	100%	Sales of smart hardware
Xiaomi Finance Inc. ("**Xiaomi Finance**")	Cayman Islands, limited liability company	February 15, 2018	US$1	100%	100%	100%	Investment holding and investment activities
Xiaomi Best Time International Ltd.	Hong Kong, limited liability company	December 20, 2018	US$500,000,000	100%	100%	100%	Intra-group capital supervision, collection, remittance, credit guarantee and interest rate risk management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2021	As of December 31, 2020	As of the date of this report	
Subsidiaries							
Indirectly held:							
Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	August 25, 2010	US$320,000,000	100%	100%	100%	Sales of smartphones, sales of ecosystem partners' products and provision of customer services
Beijing Xiaomi Electronics Co., Ltd.	Mainland China, limited liability company	January 9, 2012	US$27,000,000	100%	100%	100%	Sales of smart hardware
Taiwan Xiaomi Communications Co., Ltd.	Taiwan, limited liability company	April 25, 2000	New Taiwan Dollar ("**NTD**") 5,000,000	100%	100%	100%	Sales of smart hardware
Chongqing Xiaomi Microcredit Co., Ltd.	Mainland China, limited liability company	June 12, 2015	US$450,000,000	100%	100%	100%	Internet finance and consumer loan services
Beijing Xiaomi Mobile Software Co., Ltd.	Mainland China, limited liability company	May 8, 2012	RMB288,000,000	100%	100%	100%	Software and hardware development and provision of software related services
Zhuhai Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	January 25, 2013	RMB2,000,000	100%	100%	100%	Procurement and sales of smartphones, ecosystem partners' products and spare parts, procurement of raw materials
Guangdong Xiaomi Inc.	Mainland China, limited liability company	September 21, 2015	RMB1,000,000,000	100%	100%	100%	Provision of software and technology service

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2021	2020		
Subsidiaries							
Indirectly held (continued):							
Guangzhou Xiaomi Communications Co., Ltd.	Mainland China, limited liability company	September 22, 2016	RMB951,000,000	100%	100%	100%	Sales of smart hardware
Timi Personal Computing Co., Ltd.	Mainland China, limited liability company	July 28, 2015	RMB2,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology India Private Limited ("**Xiaomi India**")	India, limited liability company	October 7, 2014	Indian Rupees ("**INR**")207,450	100%	100%	100%	Sales of smartphones and ecosystem partners' products
Guangzhou Xiaomi Information Service Co., Ltd.	Mainland China, limited liability company	December 29, 2016	RMB1,000,000	100%	100%	100%	Provision of advertising and promotion services
Xiaomi Home Commercial Co., Ltd.	Mainland China, limited liability company	June 27, 2017	RMB100,000,000	100%	100%	100%	Operation of retail stores
Red Better Limited	British Virgin Islands, limited liability company	October 8, 2013	–	100%	100%	100%	Investment activities
Green Better Limited	British Virgin Islands, limited liability company	December 9, 2013	US$1	100%	100%	100%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31,		As of the date of this report	
				2021	2020		
Subsidiaries Indirectly held (continued):							
People Better Limited	British Virgin Islands, limited liability company	April 22, 2014	US$1,000,001	100%	100%	100%	Investment activities
Xiaomi Home Technology Co., Ltd.	Mainland China, limited liability company	January 20, 2017	RMB80,000,000	100%	100%	100%	Operation of retail stores
Beijing Zilin Real Estate Co., Ltd.	Mainland China, limited liability company	November 29, 2018	RMB1,620,000,000	95%	95%	95%	Property management
Xiaomi Commercial Factoring (Tianjin) Co., Ltd.	Mainland China, limited liability company	March 21, 2018	US$380,000,000	100%	100%	100%	Commercial factoring business
Beijing Xiaomi Software Co., Ltd.	Mainland China, limited liability company	December 19, 2011	RMB18,859,500	100%	100%	100%	Research and development of computer software and information technology
PT. Xiaomi Technology Indonesia	Indonesia, limited liability company	April 23, 2018	Indonesian Rupiah ("IDR") 13,000,000,000	100%	100%	100%	Sales and production of smartphones, sales of television
Xiaomi Technology (Wuhan) Co., Ltd.	Mainland China, limited liability company	September 1, 2017	RMB210,000,000	100%	100%	100%	Software development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2021	As of December 31, 2020	As of the date of this report	
Subsidiaries Indirectly held (continued):							
Airstar Bank Limited	Hong Kong, limited liability company	July 13, 2018	HK$1,500,000,000	90%	90%	90%	Virtual banking
Xiaomi Information Technology Wuhan Ltd.	Mainland China, limited liability company	August 3, 2018	RMB123,770,000	100%	100%	100%	Information technology advisory services
Beijing Xiaomi Pinecone Electronics Co., Ltd.	Mainland China, limited liability company	October 16, 2014	RMB250,000,000	100%	100%	100%	Development and sales of electronic products
Chengdu Beida Asset Management Co., Ltd.	Mainland China, limited liability company	August 17, 2017	RMB20,000,000	100%	100%	100%	Asset management, project investment, investment consulting
Beijing Xiaomi Intelligent Technology Co., Ltd.	Mainland China, limited liability company	May 15, 2018	RMB40,000,000	100%	100%	100%	Technology development, technology diffusion, technology transfer, technology consulting
Shenzhen Xiaomi Information Technology Co., Ltd.	Mainland China, limited liability company	September 29, 2019	RMB501,000,000	100%	100%	100%	Sales of smart hardware and provision of advertising and promotion services
XIAOMI TECHNOLOGY ITALY S.R.L.	Italy, limited liability company	September 14, 2018	EUR4,452,500	100%	100%	100%	Sales of smart hardware
Xiaomi Technology Netherlands B.V.	Netherlands, limited liability company	October 29, 2018	EUR1,000,000	100%	100%	100%	Sales of smart hardware

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held As of December 31, 2021	2020	As of the date of this report	Principal activities
Subsidiaries Indirectly held (continued):							
Xiaomi Limited Liability	Russia, limited liability company	August 30, 2018	Russian Ruble ("RUB") 63,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology Spain, S.L.	Spain, limited liability company	April 13, 2018	EUR4,480,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology France S.A.S.	France, limited liability company	June 29, 2018	EUR5,780,412	100%	100%	100%	Sales of smart hardware
Xiaomi Technology (Polska) sp. z o.o.	Poland, limited liability company	August 28, 2018	Polish Zloty ("PLN") 17,106,645	100%	100%	100%	Sales of smart hardware
Xiaomi Technology Germany GmbH	Germany, limited liability company	September 12, 2019	EUR1,000,000	100%	100%	100%	Sales of smart hardware
Xiaomi Technology Japan Co., Ltd.	Japan, limited liability company	January 31, 2020	Japanese Yen ("JPY") 459,900,000	100%	100%	100%	Sales of smart hardware
MI Space (Beijing) Information Technology Co., Ltd.	Mainland China, limited liability company	May 7, 2020	RMB1,000,000,000	100%	100%	100%	Technical services
MI Space (Shanghai) Information Technology Co., Ltd.	Mainland China, limited liability company	May 28, 2021	RMB680,200,000	100%	100%	100%	Technical services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2021	As of December 31, 2020	As of the date of this report	
Controlled structured entities (Note (a)):							
Xiaomi Inc.	Mainland China, limited liability company	March 3, 2010	RMB1,850,000,000	100%	100%	100%	E-commerce business
Tianjin Jinxing Venture Investment Co., Ltd.	Mainland China, limited liability company	December 26, 2013	RMB2,476,557,552	100%	100%	100%	Investment activities
Sichuan Silver Mi Technology Co., Ltd.	Mainland China, limited liability company	October 26, 2005	RMB2,000,000,000	100%	100%	100%	Research and development of computer software and market research
Jiefu Ruitong Inc.	Mainland China, limited liability company	January 11, 2011	RMB100,000,000	100%	100%	100%	Provision of electronic payment services
Beijing Duokan Technology Co., Ltd.	Mainland China, limited liability company	February 10, 2010	RMB10,000,000	100%	100%	100%	Sales of e-book
Beijing Wali Internet Technologies Co., Ltd.	Mainland China, limited liability company	June 1, 2009	RMB2,100,000	100%	100%	100%	Provision of internet services
Tianjin Gold Mi Investment Partners (Limited Partnership)	Mainland China, limited partnership	July 16, 2014	RMB2,408,957,772	100%	100%	100%	Investment activities
Hubei Xiaomi Yangtze River Industry Investment Fund Partners (Limited Partnership)	Mainland China, limited partnership	December 7, 2017	RMB11,940,000,000	19%	17%	19%	Investment activities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(a) Major subsidiaries and controlled structured entities (continued)

As of December 31, 2021 and 2020, the Company had the following major subsidiaries (including controlled structured entities) (continued):

Name	Place of incorporation/ establishment and kind of legal entity	Date of incorporation/ establishment	Particulars of issued/ paid-in capital	Effective interest held			Principal activities
				As of December 31, 2021	As of December 31, 2020	As of the date of this report	
Controlled structured entities (Note (a)) (continued):							
Youpin Information Technology Co., Ltd.	Mainland China, limited liability company	April 4, 2018	RMB50,000,000	100%	100%	100%	E-commerce business
Hanxing Venture Investment Co., Ltd.	Mainland China, limited liability company	June 28, 2021	RMB1,000,000,000	100%	100%	100%	Investment activities
Shanghai Ziyue Enterprise Management Partners (Limited Partnership)	Mainland China, limited partnership	June 28, 2021	RMB1,001,000,000	100%	100%	100%	Enterprise management

Notes:

(a) The Company does not have directly or indirectly legal ownership in equity of these structured entities or their subsidiaries. Nevertheless, under certain Contractual Arrangements entered into with the registered owners of these structured entities, the Company and its other legally owned subsidiaries control these companies by way of controlling the voting rights, governing their financial and operating policies, appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. Accordingly, the Group has rights to exercise power over these structured entities, receives variable returns from its involvement in these structured entities, and has the ability to affect those returns through its power over these structured entities. As a result, they are presented as structured entities of the Company.

(b) The Company considered that the non-wholly owned subsidiaries with non-controlling interests are not significant to the Group, therefore, no summarized financial information of these non-wholly owned subsidiaries is presented separately.

(c) The English names of the subsidiaries are direct translation or transliteration of their Chinese registered names.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Investments in associate accounted for using the equity method		
— Listed entities (Note (a))	5,200,905	7,994,282
— Unlisted entities	5,029,846	4,787,713
	10,230,751	12,781,995

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	12,781,995	9,300,507
Additions (Note (b))	2,335,559	2,158,405
Acquisition of subsidiaries (Note 39)	5,082	—
Partial disposals (Note (c))	(1,558,205)	(186,529)
Share of net profits (Note (d))	275,013	1,380,904
Share of other comprehensive losses	(60,568)	(14,250)
Share of changes of other reserves	379,814	207,140
Dividends from associates	(59,933)	(38,206)
Impairment provision (Note (e))	(3,868,006)	(25,976)
At the end of the year	10,230,751	12,781,995

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

Notes:

(a) As of December 31, 2021, the fair value of the investments in associates which were listed entities was RMB12,618,111,000 (December 31, 2020: RMB27,255,565,000).

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

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

(c) In November and December 2021, the Group disposed totally 17,411,884 shares of Ninebot Limited and generated aggregate net gains of approximately RMB794,276,000.

In March, May and June 2021, the Group disposed totally 1,333,333 shares of Beijing Roborock Technology Co., Ltd. ("**Beijing Roborock**") and generated aggregate net gains of approximately RMB1,377,342,000.

(d) In September 2021, Kingsoft Cloud Holdings Limited ("**Kingsoft Cloud**"), an associate primarily engaging in the operation of cloud services, issued ordinary shares to acquire Camelot Employee Scheme Inc. ("**Camelot**"), a dilution gain of RMB350,971,000 was recognized accordingly.

On February 21, 2020, Beijing Roborock, an associate primarily engaging in the operation of developing and selling robotic vacuum cleaners, was successfully listed on the Science and Technology Innovation Board of Shanghai Stock Exchange ("**STAR Market**"), a dilution gain of RMB344,381,000 was recognized accordingly.

On May 8, 2020, Kingsoft Cloud, was successfully listed on the Nasdaq Global Select Market ("**NASDAQ Market**"), a dilution gain of RMB1,039,517,000 was recognized accordingly.

(e) As of December 31, 2021, the Group made an aggregate impairment provision of approximately RMB3,868,006,000 against the carrying amounts of certain investments in associates which are listed companies. The Group carries out impairment assessment on those investments with impairment indications, and the respective recoverable amounts of investments are determined with reference to the higher of fair value less costs of disposal and value in use. The impairment provision mainly resulted from significant or prolong declines in values of these associates, mainly due to the adverse financial/business outlook of the associates or changes in the market environment of the underlying business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

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

Set out below are the material associates of the Group as of December 31, 2021 and 2020. The associates as listed below are ordinary shares investment, which held directly by the Group. Mainland China is their principal place of business. The proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of incorporation	% of Ownership interest	Principal activities	Quoted fair value As of December 31, 2021 RMB'000	Quoted fair value As of December 31, 2020 RMB'000	Carrying amount As of December 31, 2021 RMB'000	Carrying amount As of December 31, 2020 RMB'000
Sichuan Xin Wang Bank Co., Ltd. ("**XW Bank**")	Mainland China	29.5	Provision of internet banking service	**NA**	NA	**1,697,417**	1,478,232
iQIYI, Inc. ("**iQIYI**")	Cayman Islands	6.2	Provision of internet video streaming services	**1,419,913**	5,570,375	**1,419,913**	3,448,582

The associates of the Group have been accounted by using the equity method based on the financial information of the associates prepared under the accounting policies consistent with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

Set out below are the summarized financial information of material associates.

	XW Bank		iQIYI	
	As of December 31,		As of December 31,	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Summarized consolidated balance sheets				
Current assets	**15,145,064**	10,404,162	**11,524,117**	22,290,424
Non-current assets	**41,971,293**	30,156,460	**39,895,159**	35,469,677
Current liabilities	**22,660,145**	14,546,314	**22,476,470**	24,854,578
Non-current liabilities	**28,702,255**	21,003,353	**16,559,360**	16,280,221
Redeemable non-controlling interests	**—**	—	**397,385**	108,629
Non-controlling interests	**—**	—	**88,129**	79,011
Equity attributable to owners of the Company	**5,753,957**	5,010,955	**11,897,932**	16,437,662
Reconciliation to carrying amounts:				
Group's share of net assets attributable to owners of the associates	**1,697,417**	1,478,232	**742,087**	1,025,235
Adjustment				
— Goodwill	**—**	—	**2,423,347**	2,423,347
— Impairment provision	**—**	—	**(1,745,521)**	—
Carrying amount	**1,697,417**	1,478,232	**1,419,913**	3,448,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

12(b) Investments accounted for using the equity method (continued)

	XW Bank		iQIYI	
	Year ended December 31,		Year ended December 31,	
	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Summarized consolidated income statements and consolidated statements of comprehensive income				
Revenues	2,641,315	2,356,575	30,554,359	29,707,215
Profit/(loss) from operations	935,193	786,950	(5,106,769)	(6,511,180)
Profit/(loss) before tax	928,398	784,581	(6,639,550)	(7,454,548)
Net profit/(loss)	917,646	706,166	(6,579,204)	(7,477,824)
Other comprehensive income	—	—	166,322	435,962
Total comprehensive income/(loss)	917,646	706,166	(6,412,882)	(7,041,862)

In addition to the interests in associates disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates at the end of the year	7,113,421	7,855,181
Aggregate amounts of the Group's share of:		
Net profit	40,571	46,244
Other comprehensive loss	(70,942)	(42,145)
Total comprehensive (loss)/income	(30,371)	4,099

There are no contingent liabilities relating to the Group's interests in the associates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Income tax expenses

The income tax expenses of the Group during the years ended December 31, 2021 and 2020 are analyzed as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Current income tax	4,135,298	2,327,725
Deferred income tax (Note 35)	998,500	(1,007,003)
Income tax expenses	5,133,798	1,320,722

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory tax rate of 25% in mainland China, being the tax rate applicable to the majority of consolidated entities as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Profit before income tax	24,417,033	21,633,432
Tax calculated at statutory income tax rate of 25% in mainland China (Note (a))	6,104,258	5,408,358
Tax effects of:		
— Effect of different tax rates in other jurisdictions (Note (b), (c), (d))	895,414	(2,728,700)
— Preferential income tax rates applicable to subsidiaries (Note (e))	(1,619,794)	(690,128)
— Tax losses and temporary differences for which no deferred income tax assets was recognized	358,367	267,162
— Expenses not deductible for income tax purposes	241,435	445,787
— Utilization of previously unrecognized deductible tax losses and temporary differences	(38,956)	(468,998)
— Recognition of previously unrecognized deductible tax losses and temporary differences	—	(228,402)
— Super Deduction for research and development expenses (Note (f))	(472,742)	(428,683)
— Income not subject to tax	(334,406)	(259,776)
— Others	222	4,102
Income tax expenses	5,133,798	1,320,722

13 Income tax expenses (continued)

Notes:

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

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

(b) Cayman Islands and British Virgin Islands income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly, is exempted from Cayman Islands income tax. As such, the operating results reported by the Company, including the share-based payments (Note 29), are not subject to any income tax.

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

(c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax under the two-tiered profits tax regime, which the tax rate is 8.25% for assessable profits in the first HK$2 million and 16.5% for any assessable profits in excess. However, for two or more connected entities, only one of them may elect the two-tiered profits tax rates.

(d) India income tax

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

(e) Preferential EIT rate

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

Beijing Xiaomi Mobile Software Co., Ltd. ("**Xiaomi Mobile**") was qualified as a "Key Software Enterprise" in the third quarter of 2018 and renewed this qualification annually, hence it enjoys a preferential income tax rate of 10% from 2017 to 2020. The directors of the Company consider Xiaomi Mobile can still be qualified upon annual renewal in the first half of 2022 and hence continues to enjoy the preferential income tax rate of 10% for the year ended December 31, 2021.

Tianxing Digital Technology Co., Ltd. (formerly known as Xiaomi Digital Technology Co., Ltd.) was qualified as a "High and New Technology Enterprise" in November 2018 and renewed this qualification in December 2021, hence it enjoys a preferential income tax rate of 15% from 2018 to 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

13 Income tax expenses (continued)

Notes (continued):

(f) Super Deduction for research and development expense

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

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

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

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

14 Earnings per share

(a) Basic

Basic earnings per share for the years ended December 31, 2021 and 2020 are calculated by dividing the profit attributable to the Company's owners by the weighted average number of ordinary shares in issue during the year.

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	19,339,321	20,355,504
Weighted average number of ordinary shares in issue (thousand shares)	24,927,461	23,986,829
Basic earnings per share (expressed in RMB per share)	0.78	0.85

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

14 Earnings per share (continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As the inclusion of potential ordinary shares from the convertible bonds would be anti-dilutive, it is not included in the calculation of diluted earnings per share.

For the years ended December 31, 2021 and 2020, the share options and RSUs granted by the Group's subsidiaries and associates had either anti-dilutive effect or insignificant dilutive effect to the Group's diluted earnings per share.

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Net profit attributable to the owners of the Company	19,339,321	20,355,504
Weighted average number of ordinary shares in issue (thousand shares)	24,927,461	23,986,829
Adjustments for RSUs and share options granted to employees (thousand shares)	569,667	664,800
Adjustments for share consideration for acquisition of Zimi (thousand shares) (Note 39(a))	12,303	16,651
Weighted average number of ordinary shares for calculation of diluted earnings per share (thousand shares)	25,509,431	24,668,280
Diluted earnings per share (expressed in RMB per share)	0.76	0.83

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property and equipment

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2021						
Cost	1,402,988	24,358	3,633,346	1,033,174	1,675,615	7,769,481
Accumulated depreciation	(643,957)	(17,283)	(86,084)	(716,500)	—	(1,463,824)
Net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
Year ended December 31, 2021						
Opening net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
Currency translation differences	(4,116)	(212)	—	(2,425)	(46)	(6,799)
Additions	471,452	1,713	—	901,423	1,120,435	2,495,023
Transfer from construction in progress to investment properties, buildings and others	—	—	33,014	—	(1,088,898)	(1,055,884)
Acquisition of subsidiaries (Note 39)	954	26	23,890	—	—	24,870
Disposals	(31,010)	(19)	—	(46,783)	—	(77,812)
Depreciation charge (Note 9)	(297,370)	(2,222)	(86,990)	(333,852)	—	(720,434)
Closing net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621
At December 31, 2021						
Cost	1,775,713	25,717	3,690,248	1,885,773	1,707,106	9,084,557
Accumulated depreciation	(876,772)	(19,356)	(173,072)	(1,050,736)	—	(2,119,936)
Net book amount	898,941	6,361	3,517,176	835,037	1,707,106	6,964,621

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property and equipment (continued)

	Electronic equipment RMB'000	Office equipment RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At January 1, 2020						
Cost	887,568	22,789	2,267,382	775,970	3,995,426	7,949,135
Accumulated depreciation	(429,142)	(15,416)	(17,636)	(494,610)	—	(956,804)
Net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Year ended December 31, 2020						
Opening net book amount	458,426	7,373	2,249,746	281,360	3,995,426	6,992,331
Currency translation differences	(4,984)	(512)	—	(3,879)	(3)	(9,378)
Additions	542,717	2,455	—	305,581	1,263,051	2,113,804
Transfer from construction in progress to buildings and others	—	—	1,365,964	—	(3,554,370)	(2,188,406)
Disposals	(13,294)	(51)	—	(43,268)	(28,489)	(85,102)
Depreciation charge (Note 9)	(223,834)	(2,190)	(68,448)	(223,120)	—	(517,592)
Closing net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657
At December 31, 2020						
Cost	1,402,988	24,358	3,633,346	1,033,174	1,675,615	7,769,481
Accumulated depreciation	(643,957)	(17,283)	(86,084)	(716,500)	—	(1,463,824)
Net book amount	759,031	7,075	3,547,262	316,674	1,675,615	6,305,657

Construction in progress as of December 31, 2021 and 2020 mainly comprises new office buildings being constructed in mainland China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

15 Property and equipment (continued)

Depreciation expenses have been charged to the consolidated income statement as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Administrative expenses	165,892	120,863
Selling and marketing expenses	291,287	165,270
Research and development expenses	201,678	201,426
Cost of sales	61,577	30,033
	720,434	517,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021					
Cost	253,251	4,549,537	1,150,844	389,491	6,343,123
Accumulated amortization	—	(1,232,529)	(615,839)	(229,136)	(2,077,504)
Net book amount	253,251	3,317,008	535,005	160,355	4,265,619
Year ended December 31, 2021					
Opening net book amount	253,251	3,317,008	535,005	160,355	4,265,619
Currency translation differences	—	(40)	(2,104)	(2,112)	(4,256)
Additions	—	16,633	42,264	96,422	155,319
Acquisition of subsidiaries (Note 39)	1,443,388	—	999,291	41	2,442,720
Disposals	—	—	(941)	(21,968)	(22,909)
Amortization charge (Note 9)	—	(1,026,159)	(163,491)	(67,684)	(1,257,334)
Closing net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159
At December 31, 2021					
Cost	1,696,639	4,566,090	2,185,896	465,941	8,914,566
Accumulated amortization	—	(2,258,648)	(775,872)	(300,887)	(3,335,407)
Net book amount	1,696,639	2,307,442	1,410,024	165,054	5,579,159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

	Goodwill (Note (a)) RMB'000	License RMB'000	Trademarks, patents and domain name RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020					
Cost	248,167	1,426,992	1,080,599	340,711	3,096,469
Accumulated amortization	—	(727,591)	(529,789)	(167,087)	(1,424,467)
Net book amount	248,167	699,401	550,810	173,624	1,672,002
Year ended December 31, 2020					
Opening net book amount	248,167	699,401	550,810	173,624	1,672,002
Currency translation differences	—	26	(9,435)	(4,150)	(13,559)
Additions	5,084	3,123,202	92,632	89,409	3,310,327
Disposals	—	(711)	(1,548)	(35,326)	(37,585)
Amortization charge (Note 9)	—	(504,910)	(97,454)	(63,202)	(665,566)
Closing net book amount	253,251	3,317,008	535,005	160,355	4,265,619
At December 31, 2020					
Cost	253,251	4,549,537	1,150,844	389,491	6,343,123
Accumulated amortization	—	(1,232,529)	(615,839)	(229,136)	(2,077,504)
Net book amount	253,251	3,317,008	535,005	160,355	4,265,619

Note:

(a) Impairment test for goodwill

For the purpose of impairment tests of goodwill, goodwill is allocated to groups of CGUs. Such groups of CGUs represent the lowest level within the Group for which the goodwill is monitored for internal management purpose.

Impairment review on the goodwill of the Group has been conducted by the management as of December 31, 2021 and 2020 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on VIU calculations by using the discounted cash flow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

Note (continued):

(a) Impairment test for goodwill (continued)

(i) Impairment test for goodwill of Zimi

On July 5, 2021, the Group completed the acquisition of Zimi and recognized goodwill amounting to RMB1,382,143,000. Goodwill is monitored by management at the CGU level and Zimi was considered as a standalone CGU.

Management performed an impairment assessment of the goodwill of Zimi using VIU method as of December 31, 2021. The VIU was determined using discounted cash flows calculation which derived from the five-year financial projections plus a terminal value related to cash flows beyond the projection period (five-year period) extrapolated using estimated perpetual growth rate. The key assumptions used by management for VIU calculation include:

(1) the annual growth rate of revenue for a five-year period ranging from 5%–28% for Zimi, the gross profit range from 17%–18%, which was determined by the management based on past performance and its expectation for market development;

(2) pre-tax discount rate of 20% for Zimi, which was estimated by using the weighted average cost of capital ("**WACC**") method. The WACC was calculated by referring to public market data including risk free rate, market return, beta of comparable public companies etc. and the specific risk of Zimi;

(3) the estimated perpetual growth rate used in the VIU calculation for period beyond the projected period was 2.5%, after making reference to long term inflation rate of the PRC.

As of December 31, 2021, the recoverable amount of Zimi calculated based on VIU exceeded carrying value by RMB196,358,000. Had annual growth rate of revenue for a five-year period been 5% lower or the pre-tax discount rate been 1% higher, the headroom of Zimi would be decreased to RMB91,632,000 and RMB62,596,000 respectively. Reasonably possible changes in key assumptions used in the impairment test of goodwill will not lead to the goodwill impairment loss as of December 31, 2021.

(ii) Impairment test for goodwill of others

The goodwill of others is mainly generated from the acquisitions of Duokan International Group Inc. and Wali International before 2015. Management forecasted the average annual revenue growth rate in five-year period is 5%, and the cash flows beyond the five-year period were extrapolated using the estimated annual growth rates of 2.5%. Pre-tax discount rate of 20% was used to reflect market assessment of time value and the specific risks relating to the CGUs.

The management performed impairment test for the goodwill and determined such goodwill was not impaired. Reasonably possible changes in key assumptions will not lead to the goodwill impairment loss as of December 31, 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

16 Intangible assets (continued)

Amortization charges were expensed off in the following categories in the consolidated income statement:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Administrative expenses	88,735	35,896
Selling and marketing expenses	4,352	2,078
Research and development expenses	1,164,247	627,592
	1,257,334	665,566

The Group tests annually whether goodwill and other intangible assets with an indefinite useful life have suffered any impairment. During the years ended December 31, 2021 and 2020, no goodwill or other identifiable intangible assets have been impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Leases

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
(i) The consolidated balance sheet includes the following amounts relating to leases:		
Right-of-use assets (Note (a))		
Land use rights	6,078,568	4,490,143
Servers and other equipments	1,244,915	—
Properties	1,965,161	865,533
Other assets	2,796	9,948
	9,291,440	5,365,624
Lease liabilities (Note (b))		
Current	(1,532,625)	(363,397)
Non-current	(1,748,529)	(516,482)
	(3,281,154)	(879,879)

Notes:

(a) Included in the line item 'Other non-current assets' in the consolidated balance sheet.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

17 Leases (continued)

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
(ii) The consolidated income statement includes the following amounts relating to leases:		
Depreciation charge of right-of-use assets	1,055,170	496,616
Interest expense (included in finance costs)	91,954	42,335
Expense relating to short-term leases not included in lease liabilities (included in cost of sales and expenses)	453,836	845,298
Expense relating to variable lease payments not included in lease liabilities (included in operating expenses)	183,806	116,951
	1,784,766	1,501,200

Besides land use rights, the Group leases offices, warehouses, retail stores and servers.

The total cash outflow in financing activities for leases during the year ended December 31, 2021 was RMB1,115,859,000 (2020: RMB493,899,000), including principal elements of lease payments of approximately RMB1,023,905,000 (2020: RMB451,564,000) and related interest paid of approximately RMB91,954,000 (2020: RMB42,335,000), respectively.

18 Other non-current assets

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Right-of-use assets (Note 17)	9,291,440	5,365,624
Investment properties (Note (a))	2,890,635	1,213,247
Long-term deposits to suppliers	1,144,352	—
Prepayments for land use rights and construction	1,558,906	15,606
Others	1,058,175	381,374
	15,943,508	6,975,851

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note:

(a) Investment properties

	Buildings and facilities RMB'000	Land use rights RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2021	787,189	499,453	—	1,286,642
Transfer from property and equipment	829,669	—	—	829,669
Transfer from land use rights	—	994,306	—	994,306
At December 31, 2021	1,616,858	1,493,759	—	3,110,617
ACCUMULATED DEPRECIATION				
At January 1, 2021	(22,170)	(51,225)	—	(73,395)
Charge for the year (Note 9)	(18,696)	(10,012)	—	(28,708)
Transfer from land use rights	—	(117,879)	—	(117,879)
At December 31, 2021	(40,866)	(179,116)	—	(219,982)
NET BOOK VALUE				
At December 31, 2021	1,575,992	1,314,643	—	2,890,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

	Buildings and facilities RMB'000	Land use rights RMB'000	Investment properties in constructions RMB'000	Total RMB'000
COST				
At January 1, 2020	711,432	504,895	79,313	1,295,640
Transfer to property and equipment	—	—	(3,556)	(3,556)
Transfer to right-of-use assets	—	(5,442)	—	(5,442)
Transfer from investment property in constructions to buildings and facilities	75,757	—	(75,757)	—
At December 31, 2020	787,189	499,453	—	1,286,642
ACCUMULATED DEPRECIATION				
At January 1, 2020	(4,190)	(40,518)	—	(44,708)
Charge for the year (Note 9)	(17,980)	(10,707)	—	(28,687)
At December 31, 2020	(22,170)	(51,225)	—	(73,395)
NET BOOK VALUE				
At December 31, 2020	765,019	448,228	—	1,213,247

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(i) Details of the Group's main investment properties and information about the fair value hierarchy as of December 31, 2021 and 2020 are as follows:

	As of December 31,			
	2021		2020	
	Carrying amount RMB'000	Fair value (level 3) RMB'000	Carrying amount RMB'000	Fair value (level 3) RMB'000
Investment property units				
Located in Haidian, Beijing	1,093,579	1,551,080	1,120,141	1,554,140
Located in Yizhuang, Beijing	81,267	119,500	83,254	115,600
Located in Haizhu, Guangzhou	1,706,144	1,887,400	—	—

The Group's investment properties were valued at December 31, 2021 for investment property units located in Haidian and Yizhuang, Beijing and Haizhu, Guangzhou by Asia-Pacific Consulting and Appraisal Limited, which is an independent qualified valuer. The valuation was determined on the basis of capitalization of the net rental income with due provisions for reversionary income potential of the respective properties as of December 31 2021. The key inputs were term yield and reversionary yield which both ranged from 3% to 7% (2020: from 3% to 7%).

The above investment properties are leased to tenants under operating leases with rentals payable semiannually. Lease payments for the contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties as disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

18 Other non-current assets (continued)

Note (continued):

(a) Investment properties (continued)

(ii) Property rental income earned during the year ended December 31, 2021 was approximately RMB95,730,000 (2020: RMB94,701,000). The investment property unit located in Haidian, Beijing has committed tenants for the next 4 years. The investment property unit located in Yizhuang, Beijing has committed tenants for the next 12 years. The investment property unit located in Haizhu, Guangzhou has committed tenants for the next 6 years. As of December 31, 2021, as a lessor, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
No later than 1 year	108,652	94,701
Later than 1 year and no later than 12 years	433,933	475,285
	542,585	569,986

(iii) Depreciation charges of approximately RMB28,708,000 for the year ended December 31, 2021 have been charged in profit or loss (2020: RMB28,687,000).

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(Expressed in RMB unless otherwise indicated)

19 Financial instruments by category

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Assets as per balance sheet		
Financial assets measured at fair value:		
— Long-term investments measured at fair value through profit or loss (Note 20)	50,113,702	35,215,319
— Short-term investments measured at fair value through profit or loss (Note 20)	29,311,848	22,376,387
— Short-term investments measured at fair value through other comprehensive income (Note 20)	710,865	797,456
— Bills receivables measured at fair value through other comprehensive income	14,033	200,000
Financial assets measured at amortized costs:		
— Trade receivables (Note 22)	17,985,503	10,161,019
— Loan receivables (Note 21)	5,109,034	8,919,088
— Other receivables	12,335,927	9,099,090
— Long-term investments measured at amortized cost (Note 20)	351,362	232,798
— Short-term investments measured at amortized cost (Note 20)	1,597,919	—
— Long-term bank deposits (Note 25(c))	16,195,419	9,608,677
— Short-term bank deposits (Note 25(c))	31,041,129	17,598,946
— Restricted cash (Note 25(b))	4,319,661	3,625,257
— Cash and cash equivalents (Note 25(a))	23,511,579	54,752,443
	192,597,981	172,586,480
Liabilities as per balance sheet		
Financial liabilities measured at amortized cost:		
— Trade payables (Note 31)	74,643,005	72,198,856
— Other payables	12,946,691	9,826,091
— Borrowings (Note 34)	26,246,840	17,596,743
— Liabilities to fund investors (Note 30)	14,892,666	9,364,533
— Lease liabilities (Note 17)	3,281,154	879,879
	132,010,356	109,866,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Amortized cost (i)	1,597,919	—
— Fair value through other comprehensive income (ii)	710,865	797,456
— Fair value through profit or loss (iii)	29,311,848	22,376,387
	31,620,632	23,173,843
Non-current assets		
Long-term investments measured at amortized cost (ii)	351,362	232,798
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments (iv)	22,755,228	13,969,457
— Preferred shares investments (v)	25,108,840	20,913,568
— Other investments (vi)	2,249,634	332,294
	50,465,064	35,448,117

(i) Short-term investments measured at amortized cost

Short-term investments measured at amortized cost are wealth management products, denominated in US$, with guaranteed returns ranging from 0.49% to 0.75% per annum for the year ended December 31, 2021. The investments are held for collection of contractual cash flow and the contractual cash flows of these investments qualify for solely payments of principal and interest, hence they are measured at amortized costs. None of these investments are past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

(ii) Short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized cost

Short-term investments measured at fair value through other comprehensive income and long-term investments measured at amortized cost are mainly debt securities, denominated in HK$ and US$, where the contractual cash flows are solely principal and interest. The securities are mainly issued by banks and the fair value of such debt securities was determined based on quoted price on interbank bond market. None of these investments are past due.

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

(iii) Short-term investments measured at fair value through profit or loss

The short-term investments measured at fair value through profit or loss are wealth management products, denominated in RMB and US$, with expected rates of return ranging from 1.17% to 5.40% per annum for the year ended December 31, 2021 (2020: 0.65% to 7.20%). The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy (refer to Note 3.3 for details).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

(iv) Ordinary shares investments

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Listed	12,312,622	10,619,788
Unlisted	10,442,606	3,349,669
	22,755,228	13,969,457

The fair values of the listed securities are determined based on the closing prices quoted in active markets. They are accounted for using their fair values based on quoted market prices (level 1: quoted price (unadjusted) in active markets) without any deduction for transaction costs. For certain listed securities which are restricted for sale in a specified period, their fair values are determined based on quoted market prices and unobservable inputs (i.e. discount rate for lack of marketability) and hence classified as level 3 of the fair value hierarchy. And as of December 31, 2021, the Group has not elected to recognize the fair value gains or losses on these ordinary shares investments in OCI.

The fair values of unlisted securities are measured using a valuation technique with unobservable inputs and hence classified as level 3 of the fair value hierarchy. The major assumptions used in the valuation for investment in private companies refer to Note 3.3.

(v) Preferred shares investments

During the year ended December 31, 2021, the Group made aggregate preferred shares investments of RMB6,866,153,000 (2020: RMB5,472,801,000). These investees are principally engaged in sales of goods, provision of internet services and integrated circuit industry.

The preferred shares investments in these investees are convertible redeemable preferred shares or ordinary shares with preferential rights. The Group has the right to require and demand the investees to redeem all of the shares held by the Group at guaranteed predetermined fixed amount upon redemption events which are out of control of issuers. Hence, these investments are accounted for as debt instruments and are measured at financial assets at fair value through profit or loss. For the major assumptions used in the valuation for investment in private companies, please refer to Note 3.3.

20 Investments (continued)

(vi) Other investments

In September 2021, the Group purchased US$300,000,000 Undated Additional Tier 1 Capital Bonds ("**the Bonds**"), which was issued by Industrial and Commercial Bank of China Limited ("**ICBC**"). The Bonds have an initial fixed distribution rate of 3.20% per annum from and including September 24, 2021 to but excluding September 24, 2026. The distribution rate will thereafter be reset for every five years. The Bonds have no fixed maturity date and the Group has no right to request ICBC to redeem or buyback the Bonds held by the Group.

In November 2021, the Group entered into an agreement with J.P. MORGAN SECURITIES PLC ("**JPMSPLC**"), to swap the Bonds for J.P. Morgan Custom 390E Index Linked Note ("**JPM Note**") issued by J.P. Morgan Structured Products B.V. and guaranteed by JPMorgan Chase Bank, N.A. The JPM Note have the distribution rate with reference to J.P. Morgan Custom 390E Index from and including March 24, 2022 to and including September 24, 2026. As of December 31, 2021, the fair value of the JPM Note amounted to RMB1,918,831,000.

In March 2020, the Group invested US$50,000,000 Non-Cumulative Perpetual Offshore Preference Shares ("**the Offshore Preference Shares**"), which was issued by Bank of China Limited ("**BOC**"). The Offshore Preference Shares have an initial dividend rate of 3.60% per annum from and including March 4, 2020 to but excluding March 4, 2025. The dividend rate will thereafter be reset for every five years. The Offshore Preference Shares are perpetual and have no maturity date. The Group has no right to request BOC to redeem the Offshore Preference Shares. As of December 31, 2021 and December 31, 2020, the fair value of the Offshore Preference Shares amounted to RMB330,803,000 and RMB332,294,000, respectively.

The returns on these two products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. The fair values are based on cash flow discounted using the expected return based on management judgment and are within level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

20 Investments (continued)

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

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Fair value changes on ordinary shares investments	4,423,582	8,425,388
Fair value changes on preferred shares investments	3,000,810	4,062,525
Fair value changes on short-term investments measured at fair value through profit or loss	695,240	679,432
Fair value change on other investments	12,501	6,134
	8,132,133	13,173,479

21 Loan receivables

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Unsecured loan	5,945,909	11,350,989
Secured loan	155,549	377,183
Less: credit loss allowance	(992,424)	(2,809,084)
	5,109,034	8,919,088

Loan receivables are loans derived from subsidiaries of the Group which engages in the fintech business. Such amounts are recorded at the principal amount less credit loss allowance. The loan periods extended by the Group to the individuals generally range from 3 months to 12 months. Loan receivables are mainly denominated in RMB.

Detail of the credit risk assessment of loan receivables is disclosed in Note 3.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Trade receivables

Trade receivables analysis is as follows:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Third parties	17,855,759	10,123,256
Related parties	293,721	238,523
	18,149,480	10,361,779
Less: credit loss allowance	(163,977)	(200,760)
	17,985,503	10,161,019

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
RMB	9,301,766	6,139,705
INR	1,602,814	1,878,880
US$	5,092,025	1,660,117
EUR	1,561,632	358,586
Others	427,266	123,731
	17,985,503	10,161,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Trade receivables (continued)

Movements on the Group's credit loss allowance of trade receivables are as follows:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	(200,760)	(115,781)
Credit loss allowance reversed/(recognized)	11,861	(101,264)
Receivables written off during the year as uncollectable	24,922	16,285
At the end of the year	(163,977)	(200,760)

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Trade receivables		
Up to 3 months	15,740,356	9,400,187
3 to 6 months	1,477,059	534,660
6 months to 1 year	652,701	234,844
1 to 2 years	184,058	110,291
Over 2 years	95,306	81,797
	18,149,480	10,361,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

22 Trade receivables (continued)

(b) The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group's expected loss rates are mainly determined based on the corresponding historical credit loss rates which are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has considered the expected changes in macroeconomic factors, such as Consumer Price Index ("**CPI**"), Gross Domestic Product ("**GDP**") and Business Climate Index ("**BCI**"), and accordingly adjusts the historical loss rates based on expected changes in all factors identified. The loss allowance provisions as of December 31, 2020 and 2021 are determined as follows:

	Current	Up to 3 months past due	3 to 6 months past due	Over 6 months past due	Total
December 31, 2021:					
Expected loss rate	0.41%	2.34%	3.91%	59.20%	
Gross carrying amount (in thousand)	16,808,171	1,061,691	172,302	107,316	18,149,480
Loss provision (in thousand)	68,816	24,892	6,741	63,528	163,977
December 31, 2020:					
Expected loss rate	0.90%	2.99%	18.36%	57.17%	
Gross carrying amount (in thousand)	9,532,268	616,190	65,526	147,795	10,361,779
Loss provision (in thousand)	85,810	18,421	12,031	84,498	200,760

As of December 31, 2021 and 2020, the majority of the balance of receivables are due from certain channel distributors and customers in mainland China, India and Europe who usually settle the amounts due by them within 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

23 Prepayments and other receivables

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties	10,271,165	7,363,158
Recoverable value-added tax and other taxes	5,064,593	5,649,195
Prepayments to suppliers	1,044,032	996,788
Deposits to suppliers	440,784	343,141
Receivables from market development fund	181,217	304,787
Prepaid fees for patent expenses and other prepaid expenses	1,407,332	436,447
Receivables from employees related to Employee Fund (Note (a))	100,250	100,750
Interest receivables	516,357	444,441
Receivables related to share options and RSUs granted to employees	180,915	300,772
Others	645,239	242,041
	19,851,884	16,181,520

Note:

(a) Receivables from employees related to Employee Fund is interest bearing and repayable when the employee resign from the Group. Further detail included in Note 29.

As of December 31, 2021 and 2020, the carrying amounts of other receivables were primarily denominated in RMB and US$ and approximated their fair value at each of the reporting dates. Other receivables that are measured at amortized costs mainly included receivables from subcontractors for outsourcing of raw materials and amounts paid for third parties, receivables from market development fund, receivables from employees related to Employee Fund, interest receivables, receivables related to share options and RSUs granted to employees, which were considered to be of low credit risk, and thus the credit loss allowance recognized during the year ended December 31, 2021 and 2020 was limited to 12 months expected losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

24 Inventories

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Raw materials	19,314,001	15,684,698
Finished goods	23,934,395	17,909,963
Work in progress	4,627,210	4,135,024
Spare parts	3,896,430	1,967,593
Others	1,957,057	3,199,153
	53,729,093	42,896,431
Less: provision for impairment (Note (a))	(1,331,147)	(1,225,712)
	52,397,946	41,670,719

Note:

(a) Provision for impairment was recognized for the amount by which the carrying amount of the inventories exceeds its net realizable value, and was recorded in "cost of sales" in the consolidated income statements. The provision for impairment expense of inventory amounted to RMB2,831,529,000 for the year ended December 31, 2021 (2020: RMB3,688,809,000).

Provision for impairment movements for the years ended December 31, 2021 and 2020 are as below:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	(1,225,712)	(873,959)
Provision for impairment	(2,831,529)	(3,688,809)
Transfer to cost of sales upon sold	2,726,094	3,337,056
At the end of the year	(1,331,147)	(1,225,712)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Cash and bank balances

(a) Cash and cash equivalents

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Cash at bank and in hand	**16,024,499**	33,633,408
Short-term bank deposits with initial terms within three months	**7,487,080**	21,119,035
	23,511,579	54,752,443

Cash and cash equivalents are denominated in the following currencies:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
RMB	**10,544,501**	12,934,190
US$	**7,485,980**	36,251,899
INR	**2,237,912**	4,023,008
EUR	**1,196,449**	552,036
Others	**2,046,737**	991,310
	23,511,579	54,752,443

The weighted average effective interest rate for the short-term bank deposits with initial terms within three months was 1.47% per annum for the year ended December 31, 2021 (2020: 1.79%).

(b) Restricted cash

As of December 31, 2021, restricted cash mainly represented RMB1,084,091,000 held at People's Bank of China to meet the requirements of payment institutions. INR26,000,000,000 (equivalent to RMB2,226,120,000) short-term bank deposits in The Hongkong and Shanghai Banking Corporation Limited and INR11,250,000,000 (equivalent to RMB963,225,000) short-term bank deposits with initial terms within three months in Citibank, were restricted by India tax authorities due to the in-progress investigation described in Note 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

25 Cash and bank balances (continued)

(c) Term bank deposits

An analysis of the Group's term bank deposits as of December 31, 2021 and 2020 are listed as below:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Short-term bank deposits denominated in:		
RMB	4,702,000	4,561,000
INR	1,027,600	87
US$	25,311,529	13,037,859
	31,041,129	17,598,946
Long-term bank deposits denominated in:		
RMB	16,195,407	9,607,071
INR	12	1,606
	16,195,419	9,608,677

Short-term bank deposits are bank deposits with original maturities over three months, under twelve months and redeemable on maturity. Long-term bank deposits are bank deposits with original maturities over twelve months and redeemable on maturity.

The effective interest rate of the short-term bank deposits and long-term bank deposits of the Group ranges from 0.35% to 7.40% and from 3.10% to 7.25% per annum for the year ended December 31, 2021, respectively (2020: from 0.70% to 7.45%, and from 3.14% to 7.44%, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares

(a) Share capital

Authorized:

As of December 31, 2021 and 2020, the total authorized number of ordinary shares is 270,000,000,000 shares with par value of US$0.0000025 per share.

Issued:

	Note	Number of ordinary shares '000	Nominal value of ordinary shares US$'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
As of January 1, 2020		24,107,395	59	388	43,578,836
Exercise of share options and RSUs		184,201	—	4	1,511,225
Shares repurchased and cancelled		(158,727)	—	—	(1,349,709)
Issuance of ordinary shares to Share Scheme Trusts	(a)	27,145	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	—	687,235
Share issued for acquisition of an associate		27,294	—	1	320,384
Issuance of shares upon placement		1,000,000	3	16	19,907,920
As of December 31, 2020		25,187,308	62	409	64,655,891
Exercise of share options and RSUs		71,119	—	3	649,543
Shares repurchased and cancelled		(323,305)	—	(5)	(6,699,313)
Issuance of ordinary shares to Share Scheme Trusts	(a)	39,236	—	—	—
Release of ordinary shares from Share Scheme Trusts	(a)	—	—	—	698,434
Share issued for acquisition of Zimi	39(a)	18,091	—	—	413,071
As of December 31, 2021		24,992,449	62	407	59,717,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares (continued)

(a) Share capital (continued)

Notes:

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

(b) Treasury shares

	Number of shares '000	Amounts RMB'000
As of January 1, 2020	130,240	1,052,822
Shares repurchased	48,410	454,872
Shares cancelled	(158,727)	(1,345,663)
Release of ordinary shares from Share Scheme Trusts	(15,634)	(125,807)
As of December 31, 2020	4,289	36,224
As of January 1, 2021	**4,289**	**36,224**
Shares repurchased	**343,519**	**7,006,824**
Shares cancelled	**(323,305)**	**(6,699,318)**
As of December 31, 2021	**24,503**	**343,730**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

26 Share capital and treasury shares (continued)

(b) Treasury shares (continued)

During the year ended December 31, 2021, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares '000	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$
March 2021	19,308	26.20	25.50	498,900,661
April 2021	173,382	27.20	24.60	4,494,026,504
July 2021	15,250	26.40	25.20	393,626,650
August 2021	16,150	24.90	24.20	396,677,775
September 2021	85,229	25.00	21.25	1,965,668,178
October 2021	13,986	21.25	20.40	291,663,583
November 2021	2,604	19.12	19.06	49,723,380
December 2021	17,610	19.52	17.64	326,366,744
	343,519			8,416,653,475

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	6,152,351	(1,883,731)	1,340,353	32,947	522,674	1,764,799	229,268	8,158,661
Appropriation to statutory reserves (Note (a))	–	–	929,149	–	–	–	–	929,149
Appropriation to general reserves	–	–	–	21,176	–	–	–	21,176
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 29)	1,792,841	–	–	–	–	–	–	1,792,841
– exercise of share options and restricted stock units	(568,233)	–	–	–	–	–	–	(568,233)
Share of other comprehensive loss of investments accounted for using the equity method (Note 12(b))	–	–	–	–	–	–	(60,568)	(60,568)
Share of other reserves of investments accounted for using the equity method (Note 12(b))	–	–	–	–	379,814	–	–	379,814
Currency translation differences (Note (b))	–	(1,335,114)	–	–	–	–	–	(1,335,114)
Release of ordinary shares from Share Scheme Trust (Note 26(a)(a))	(682,802)	–	–	–	–	–	–	(682,802)
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(2,649)	(2,649)
Share consideration for acquisition of Zimi (Note 39(a))	–	–	–	–	(86,502)	–	–	(86,502)
Others	–	–	–	–	–	–	(9,125)	(9,125)
At December 31, 2021	6,694,157	(3,218,845)	2,269,502	54,123	815,986	1,764,799	156,926	8,536,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves (continued)

	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Statutory surplus reserve RMB'000	General reserve RMB'000	Capital reserve RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	6,137,329	462,913	1,157,727	2	(77)	–	273,252	8,031,146
Appropriation to statutory reserves (Note (a))	–	–	182,626	–	–	–	–	182,626
Appropriation to general reserves	–	–	–	32,945	–	–	–	32,945
Employees share-based compensation scheme:								
– value of employee services (Note (c) and Note 29)	1,978,166	–	–	–	–	–	–	1,978,166
– exercise of share options and restricted stock units	(1,179,339)	–	–	–	–	–	–	(1,179,339)
Share of other comprehensive loss of investments accounted for using the equity method (Note 12(b))	–	–	–	–	–	–	(14,250)	(14,250)
Share of other reserves of investments accounted for using the equity method (Note 12(b))	–	–	–	–	207,140	–	–	207,140
Currency translation differences (Note (b))	–	(2,346,644)	–	–	–	–	–	(2,346,644)
Release of ordinary shares from Share Scheme Trust (Note 26(a)(a))	(783,805)	–	–	–	–	–	–	(783,805)
Issuance of convertible bonds (equity component) (Note 34(c))	–	–	–	–	–	1,764,799	–	1,764,799
Net losses from changes in fair value of financial assets at fair value through other comprehensive income	–	–	–	–	–	–	(3,385)	(3,385)
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	–	–	–	–	(4,773)	–	–	(4,773)
Share consideration for acquisition of an associate	–	–	–	–	320,384	–	–	320,384
Others	–	–	–	–	–	–	(26,349)	(26,349)
At December 31, 2020	6,152,351	(1,883,731)	1,340,353	32,947	522,674	1,764,799	229,268	8,158,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

27 Other reserves (continued)

Notes:

(a) In accordance with the Company Law of the People's Republic of China and the stipulated provisions of the articles of association of subsidiaries with limited liabilities in mainland China, appropriation of net profits (after offsetting accumulated losses from prior years) should be made by these companies to their respective statutory surplus reserve funds and discretionary reserve funds before distributions are made to the owners. The percentage of appropriation to statutory surplus reserve fund is 10%. The amount to be transferred to discretionary reserve fund is determined by the equity owners of these companies. When the balance of the statutory surplus reserve fund reaches 50% of the registered capital, such transfer needs not to be made. Both statutory surplus reserve fund and discretionary reserves fund can be capitalized as capital of an enterprise, provided that the remaining statutory surplus reserve fund shall not be less than 25% of the registered capital.

In addition, in accordance with the Law of the People's Republic of China on Enterprises with Foreign Investments and the stipulated provisions of the articles of association of wholly owned foreign subsidiaries in mainland China, appropriation from net profits (after offsetting accumulated losses brought forward from prior years) should be made by these companies to their respective reserve fund. The percentage of net profit to be appropriated to the reserve fund is not less than 10% of the net profit. When the balance of the reserve fund reaches 50% of the registered capital, such transfer needs not to be made. With approvals obtained from respective boards of directors of these companies, the Reserve Fund can be used to offset accumulated deficit or to increase capital.

(b) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

A majority of the currency translation differences are arising from the Company when it translates the financial statements from the functional currency of US$ to presentation currency of RMB.

(c) Share-based compensation reserve arises from share-based payments granted to employees of the Group, see Note 29 for detail.

28 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2021 and 2020.

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29 Share-based payments

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

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

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

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

29 Share-based payments (continued)

Pre-IPO ESOP

Share options granted to employees

The share options have graded vesting terms, and vest in different schedules from the grant date over one year, 2 years, 4 years, 5 years and 10 years, on condition that employees remain in service without any performance requirements. For vesting schedule as one year, all granted share options are vested on the first anniversary of the grant date. For vesting schedule as 2 years, 50% of the aggregate number of granted share options are vested on the first anniversary of the grant date, and remaining granted share options are vested in equal tranches every month over the next twelve months. For vesting schedule as 4 years, 50% of granted share options are vested on the second anniversary of the grant date, 25% of granted share options are vested on the third anniversary of the grant date, the remaining granted share options are vested on the fourth anniversary of the grant date. For vesting schedule as 5 years, 40% of granted share options are vested on the second anniversary of the grant date, and every 20% of granted share options are vested on the third, fourth and fifth anniversary of the grant date respectively. For vesting schedule as 10 years, the granted share options are vested through 10 years with 6% to 15% shares vested each year unequally.

Under Pre-IPO ESOP, the Company also granted performance-based share options to certain employees, which are generally vested over a 10-year term. The performance goals are determined by the Board of Directors. For those awards, evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

The options may be exercised at any time and from time to time only after the closing of the QPO or upon the approval of Board of Directors for all or any portion of the share options that have become vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share options granted to employees (continued)

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

	Number of share options	Average exercise price per share option (US$)
Outstanding as of January 1, 2021	**605,831,870**	**0.10**
Forfeited during the year	**(45,532,133)**	**0.16**
Transferred to Share Scheme Trust (Note 26(a)(a))	**(22,965,090)**	**0.10**
Exercised during the year	**(71,118,410)**	**0.18**
Outstanding as of December 31, 2021	**466,216,237**	**0.08**
Exercisable as of December 31, 2021	**284,064,415**	**0.27**
Outstanding as of January 1, 2020	855,801,907	0.12
Forfeited during the year	(23,682,000)	0.33
Transferred to Share Scheme Trust (Note 26(a)(a))	(42,086,960)	0.10
Exercised during the year	(184,201,077)	0.17
Outstanding as of December 31, 2020	605,831,870	0.10
Exercisable as of December 31, 2020	281,564,590	0.25

The weighted-average remaining contract life for outstanding share options was 4.46 years as of December 31, 2021 (2020: 5.48 years).

Fair value of share options

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Pre-IPO ESOP (continued)

Share based awards granted to Lei Jun

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. No share option was exercised for the years ended December 31, 2021 and 2020.

Share Award Scheme

RSUs granted to employees

The Company granted performance-based RSUs to the Company's employees under Share Award Scheme. The RSUs granted would vest in different schedules from the service commencement date over one year, 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as one year, all granted RSUs are vested on the first anniversary of the service commencement date. For vesting schedule as 4 years, 25% of granted RSUs are vested on every anniversary of the service commencement date over the vesting period. For vesting schedule as 5 years, the granted RSUs are vested through 5 years with 40% shares vested from the first to the second anniversary of the service commencement date unequally, and every 20% of granted RSUs are vested on the third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, the granted RSUs are vested through 10 years with 30% shares vested from the first to the third anniversary of the service commencement date unequally, and every 10% of granted RSUs are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Share Award Scheme (continued)

RSUs granted to employees (continued)

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

	Number of RSUs	Weighted average grant date fair value per RSU (US$)
Outstanding as of January 1, 2021	175,401,118	1.65
Granted during the year	266,536,527	3.22
Forfeited during the year	(28,319,505)	2.65
Transferred to Share Scheme Trust (Note 26(a)(a))	(53,894,313)	1.65
Outstanding as of December 31, 2021	359,723,827	2.74
Outstanding as of January 1, 2020	90,106,933	1.20
Granted during the year	137,947,024	1.77
Forfeited during the year	(20,867,644)	1.29
Transferred to Share Scheme Trust (Note 26(a)(a))	(31,785,195)	1.15
Outstanding as of December 31, 2020	175,401,118	1.65

The weighted-average remaining contract life for outstanding RSUs granted under Share Award Scheme was 8.99 years as of December 31, 2021 (2020: 9.06 years).

The fair value of the awarded shares was calculated based on the market price of the Company's shares at the respective grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Post-IPO Share Option Scheme

Share options granted to employees

The Company granted performance-based share options to the Company's employees under Post-IPO Share Option Scheme. The share options have graded vesting terms, and vest in different schedules from the service commencement date over 4 years, 5 years and 10 years, on condition that employees remain in service and certain performance criteria is met. For vesting schedule as 4 years, the granted share options are vested through 4 years with 25% to 50% shares vested on the second, third and fourth anniversary of the service commencement date unequally. For vesting schedule as 5 years, every 20% of granted share options are vested on the first, second, third, fourth and fifth anniversary of the service commencement date respectively. For vesting schedule as 10 years, 50% of granted share options are vested on the fifth anniversary of the service commencement date, and every 10% of granted share options are vested on anniversaries of the service commencement date over the rest of the vesting period. The performance goals are determined by the Board of Directors. Evaluations are made as of each reporting period to assess the likelihood of the performance criteria being met. Share-based compensation expenses are then adjusted to reflect the revision of original estimates.

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

	Number of share options	Average exercise price per share option (HK$)
Outstanding as of January 1, 2021	227,250,000	24.26
Granted during the year	6,250,000	33.90
Forfeited during the year	(111,600,000)	24.50
Outstanding as of December 31, 2021	121,900,000	24.53
Exercisable as of December 31, 2021	2,350,000	21.02
Outstanding as of January 1, 2020	—	—
Granted during the year	227,250,000	24.26
Outstanding as of December 31, 2020	227,250,000	24.26
Exercisable as of December 31, 2020	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Post-IPO Share Option Scheme (continued)

Share options granted to employees (continued)

The weighted-average remaining contract life for outstanding share options was 8.53 years as of December 31, 2021 (2020: 9.68 years).

Fair value of share options

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

	Year ended December 31,	
	2021	2020
Fair value per share	**HK$33.90**	HK$13.60–24.50
Exercise price	**HK$33.90**	HK$13.60–24.50
Risk-free interest rate	**0.78%**	0.53%–0.67%
Dividend yield	**—**	—
Expected volatility	**43.03%**	41.50%–42.55%
Expected terms	**10 years**	10 years

The weighted-average fair value of granted share options was HK$15.07 per share for the year ended December 31, 2021 (2020: HK$12.05 per share).

The total expenses recognized in the consolidated income statement for share options and RSUs granted to the Group's employees under Pre-IPO ESOP, Share Award Scheme and Post-IPO Share Option Scheme are RMB1,792,986,000 for the year ended December 31, 2021 (2020: RMB1,978,446,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

29 Share-based payments (continued)

Employee fund

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

The total expenses recognized in the consolidated income statement for the Employee Fund granted to the Group's employees are RMB242,583,000 for the year ended December 31, 2021 (2020: RMB349,873,000).

30 Other non-current liabilities

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Liabilities to fund investors (Note (a))	**14,892,666**	9,364,533
Lease liability (Note 17)	**1,748,529**	516,482
Others	**272,454**	120,413
	16,913,649	10,001,428

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

31 Trade payables

Trade payables primarily include payables for inventories. As of December 31, 2021 and 2020, the carrying amounts of trade payables were primarily denominated in RMB, US$ and INR.

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Up to 3 months	70,187,231	68,909,758
3 to 6 months	2,526,217	2,312,665
6 months to 1 year	1,343,318	873,537
1 to 2 years	490,484	34,200
Over 2 years	95,755	68,696
	74,643,005	72,198,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

32 Other payables and accruals

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Amounts collected for third parties	1,407,164	2,642,533
Payroll and welfare payables	3,020,943	1,728,843
Deposits payable	4,358,177	1,956,126
Employee Fund (Note 29)	1,174,494	936,714
Accrual expenses	1,540,780	1,106,137
Payables for construction cost	1,466,372	1,807,120
Payables for investments	117,733	116,250
Other taxes payables	1,061,927	547,339
Lease liabilities (Note 17)	1,532,625	363,397
Payables related to share options and RSUs granted to employees	234,185	204,385
Deposits from customers	1,801,142	1,327,919
Payables under letter of credit	1,152,417	—
Others	1,356,540	882,892
	20,224,499	13,619,655

The carrying amounts of other payables were primarily denominated in RMB and approximate their fair values as of December 31, 2021 and 2020.

33 Advance from customers

Advance from customers primarily includes advance from customers when the Group receives payments in advance of the delivery of products or performance of services.

Contract liabilities are presented in advance from customers, which are the Group's obligations to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. As of December 31, 2021, the total contract liabilities amounted to RMB8,490,742,000 (2020: RMB11,116,695,000), which will be recognized as revenue within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities	—	465,000
Secured borrowings (Note (a))	1,576,761	1,594,936
Unsecured borrowings (Note (b))	15,004,487	4,530,856
Convertible bonds (Note (c))	4,138,542	4,044,014
	20,719,790	10,634,806
Included in current liabilities		
Asset-backed securities	—	3,589,629
Fund raised through trusts	—	547,500
Secured borrowings (Note (a))	507,217	460,257
Unsecured borrowings (Note (b))	5,019,833	2,364,551
	5,527,050	6,961,937

Notes:

(a) As of December 31, 2021, RMB2,083,978,000 (2020: RMB2,055,193,000) of borrowings were secured by buildings, construction in progress and land use rights amounting to approximately RMB8,468,767,000 (December 31, 2020: RMB8,343,327,000). The interest rate of these borrowings was 4.05%–4.66% per annum. Among of these borrowings, RMB37,948,000 should be repaid by the March 7, 2022, RMB200,000,000 should be repaid by May 10, 2022, RMB15,660,000 should be repaid by June 29, 2022, RMB37,949,000 should be repaid by September 7, 2022, RMB200,000,000 should be repaid by November 11, 2022, RMB15,660,000 should be repaid by December 29, 2022, RMB516,876,000 should be repaid by March 23, 2027, RMB511,849,000 should be repaid by December 12, 2027 and RMB548,036,000 should be repaid by July 20, 2035.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings (continued)

Notes (continued):

(b) (continued):

The Group issued US$800,000,000 senior bonds to professional investors on July 14, 2021 with a term to maturity of ten years and at interest rate 2.875% per annum. The net proceeds of the bonds issued, after deducting underwriting commissions and certain offering expenses, was approximately US$788,977,000.

The Group issued US$400,000,000 senior green bonds to professional investors on July 14, 2021 with a term to maturity of thirty years and at interest rate 4.10% per annum. The net proceeds of the bonds issued, after deducting underwriting commissions and certain offering expenses, was approximately US$392,462,000.

The Group issued RMB1,000,000,000 bonds in mainland China to professional investors on July 9, 2021 with a term to maturity of one year and at interest rate 2.90% per annum. The net proceeds of the bonds issued, after deducting underwriting commissions and certain offering expenses, was approximately RMB997,624,000.

The Group has RMB198,257,000 (December 31, 2020: nil) unsecured borrowings with interest rate 4.00% per annum, RMB1,563,011,000 (December 31, 2020: RMB133,212,000) unsecured borrowings with interest rate 3.85% per annum, RMB732,304,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.80% per annum, RMB78,474,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.75% per annum, RMB158,187,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.65% per annum, RMB279,126,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.60% per annum, RMB243,278,000 (December 31, 2020: nil) unsecured borrowings with interest rate 3.55% per annum, all of these borrowings should be repaid by the Group before December 14, 2022.

The Group had US$480,000,000 which was equivalent to RMB3,060,336,000 (December 31, 2020: nil) unsecured borrowings with interest rate 1 month London Inter Bank Offered Rate ("**LIBOR**") + 1.1% per annum, which should be repaid by May 19, 2025.

The Group had US$21,405,000 which was equivalent to RMB136,475,000 (December 31, 2020: nil) unsecured borrowings with interest rate 1 month LIBOR + 0.38% per annum, which should be repaid before April 15, 2022.

The Group had Turkish Lira ("**TRY**") 24,403,000 which was equivalent to RMB11,768,000 (December 31, 2020: nil) unsecured borrowings. The interest rate of these borrowings was 17.65%–26.00% per annum, which should be repaid before February 15 2022.

The Group had RMB390,000,000 (December 31, 2020: nil) of borrowings with interest rate 5.50% per annum secured by intra-group companies, which should be repaid by June 22, 2022.

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

The Group had RMB200,000,000 (December 31, 2020: nil) of borrowings with interest rate 6.00% per annum secured by intra-group companies, which should be repaid by August 25, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings (continued)

Notes (continued):

(b) (continued):

The Group had RMB190,550,000 (December 31, 2020: RMB206,000,000) unsecured borrowings with interest rate 4.66% per annum. Among of these borrowings, RMB8,100,000 should be repaid by June 20, 2022, RMB8,100,000 should be repaid by December 20, 2022, and RMB174,350,000 should be repaid by November 26, 2029.

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

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

	RMB'000
The face value of convertible bond issued on the issue date	5,578,790
Issue premium	292,886
Gross proceeds	5,871,676
Less: transaction cost	(70,654)
Net proceeds	5,801,022
Less: equity component (Note 27)	(1,764,799)
Liability component on initial recognition	4,036,223
Interest expense	7,791
Liability component as of December 31, 2020	4,044,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

34 Borrowings (continued)

Notes (continued):

(c) (continued):

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

	RMB'000
Liability component as of January 1, 2021	4,044,014
Interest accrued	189,271
Effect of foreign currency translation	(94,743)
Liability component as of December 31, 2021	4,138,542

For the year ended December 31, 2021, the interest rates of the interest-bearing liabilities range from 0.48% to 26.00% per annum (2020: from 2.05% to 7.50%).

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35 Deferred income taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using the tax rates at which are expected to be applied at the time of reversal of the temporary differences.

The amount of offsetting deferred income tax assets and liabilities is RMB191,971,000 as of December 31, 2021 (2020: RMB66,396,000). The analysis of deferred income tax assets and liabilities before offsetting is as follows:

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Deferred income tax assets:		
— to be recovered after 12 months	539,524	592,355
— to be recovered within 12 months	1,314,394	1,485,113
	1,853,918	2,077,468
Deferred income tax liabilities:		
— to be settled after 12 months	(1,359,808)	(364,441)
— to be settled within 12 months	(34,880)	(2,511)
	(1,394,688)	(366,952)

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

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	2,077,468	1,406,376
(Debited)/credited to the consolidated income statement	(237,317)	671,092
Acquisition of subsidiaries (Note 39)	13,767	—
At the end of the year	1,853,918	2,077,468

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes (continued)

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

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
At the beginning of the year	**(366,952)**	(702,863)
(Debited)/credited to the consolidated income statement	**(761,183)**	335,911
Acquisition of subsidiaries (Note 39)	**(266,553)**	—
At the end of the year	**(1,394,688)**	(366,952)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

35 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

	Accrued liabilities and provisions RMB'000	Provision for impairment of inventories RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Tax losses RMB'000	Fair value changes of financial assets RMB'000	Credit loss allowance RMB'000	Unrealized gain on intra-group transactions RMB'000	Business combination RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	521,008	226,726	51,133	430,977	68,872	483,518	253,861	–	41,373	2,077,468
(Debited)/credited to consolidated income statement	(88,776)	10,343	(5,987)	(112,013)	13,898	(312,337)	220,051	(13,767)	51,271	(237,317)
Acquisition of subsidiaries (Note 39)	–	–	–	–	–	–	–	13,767	–	13,767
At December 31, 2021	432,232	237,069	45,146	318,964	82,770	171,181	473,912	–	92,644	1,853,281
At January 1, 2020	332,358	119,799	89,485	372,906	80,615	142,853	250,790	–	17,570	1,406,376
Credited/(debited) to consolidated income statement	188,650	106,927	(38,352)	58,071	(11,743)	340,665	3,071	–	23,803	671,092
At December 31, 2020	521,008	226,726	51,133	430,977	68,872	483,518	253,861	–	41,373	2,077,468

Deferred income tax assets are recognized for deductible temporary differences to the extent that the realization of the related tax benefits through future taxable profits is probable.

As of December 31, 2021, the Group did not recognize deferred income tax assets of RMB700,498,000 (2020: RMB453,352,000), in respect of deductible temporary differences and cumulative tax losses amounting RMB3,389,642,000 (2020: RMB1,924,936,000), that can be carried forward against future taxable income. The tax losses as of December 31, 2021 amounting to RMB1,133,506,000 (2020: RMB1,240,366,000) can be carried forward indefinitely, and the remaining amount of RMB1,767,648,000 (2020: RMB531,181,000) will expire within 10 years (2020: 15 years).

35 Deferred income taxes (continued)

The movement in deferred income tax assets and liabilities during the years without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows (continued):

Deferred income tax liabilities:

	Fair value changes of financial assets RMB'000	Depreciation of property and equipment and amortization of intangible assets RMB'000	Business combination RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	(325,333)	(39,108)	(2,511)	—	(366,952)
(Debited)/credited to consolidated income statement	(780,516)	(23,486)	45,711	(2,892)	(761,183)
Acquisition of subsidiaries (Note 39)	—	—	(266,553)	—	(266,553)
At December 31, 2021	(1,105,849)	(62,594)	(223,353)	(2,892)	(1,394,688)
At January 1, 2020	(700,275)	—	(2,588)	—	(702,863)
Credited/(debited) to consolidated income statement	374,942	(39,108)	77	—	335,911
At December 31, 2020	(325,333)	(39,108)	(2,511)	—	(366,952)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information

(a) Cash generated from operations

	Year ended December 31, 2021 RMB'000	2020 RMB'000
Profit before income tax	**24,417,033**	21,633,432
Adjustments for:		
— Depreciation of property and equipment, right-of-use assets and investment properties	1,804,312	1,042,895
— Amortization of intangible assets	1,257,334	665,566
— Gain on disposal of property and equipment	(4,336)	(6,475)
— Credit loss allowance for trade and other receivables	(15,649)	222,718
— Credit loss allowance for loan receivables	21,413	1,757,680
— Provision for impairment of inventories	2,831,529	3,688,809
— Impairment provision for investments accounted for using the equity method (Note 8)	3,868,006	—
— Interest income	(1,229,826)	(963,555)
— Interest expense	2,841,457	3,364,852
— Dividend income	(169,679)	(81,407)
— Share of profits of investments accounted for using the equity method	(275,013)	(1,380,904)
— Gains on disposal of an investment accounted for using the equity method	(2,189,687)	(280,011)
— Fair value changes on investments measured at fair value through profit or loss	(8,132,133)	(13,173,479)
— Share-based compensation	2,035,569	2,328,319
— Foreign exchange losses, net	483,287	693,222
— Remeasurement loss for an associate in step-up acquisition (Note 39(a))	409,257	—
Operating cash flows before changes in working capital		
— Increase in inventories	(13,746,697)	(11,602,421)
— Increase in trade receivables	(7,548,686)	(4,272,814)
— Decrease in loan receivables	3,706,922	727,548
— (Increase)/decrease in prepayments and other receivables	(4,370,414)	3,624,788
— Decrease/(increase) in restricted cash	1,007,208	(2,407,001)
— Increase in trade payables	2,456,421	10,341,399
— (Decrease)/increase in advance from customers	(2,713,524)	3,765,667
— Increase in warranty provision	1,328,677	609,431
— Increase in other payables and accruals	4,068,696	3,534,327
— Increase/(decrease) in other non-current liabilities	86,306	(784)
Cash generated from operations	**12,227,783**	23,831,802

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information (continued)

(b) Proceeds from disposal of property and equipment

In the consolidated statement of cash flows, proceeds from sale of property and equipment comprise:

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Net book amount (Note 15)	31,029	56,613
Gain on disposal of property and equipment	4,336	6,475
Proceeds from disposal of property and equipment	35,365	63,088

(c) Non-cash transactions

Other than addition of right-of-use assets and lease liabilities described in Note 17, the dilution gains of investments accounted for using the equity method recognized as described in Note 12(b), the issue of shares as consideration for acquisition of Zimi as described in Note 39(a) and recognized long-term deposits to suppliers with credit to payable under letter of credit as described in Note 18 and Note 32, there were no material non-cash transactions for the year ended December 31, 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

36 Cash flow information (continued)

(d) Reconciliation of liabilities generated from financing activities

	Liabilities from financing activities					
	Borrowing due within 1 year RMB'000	Borrowing due after 1 year RMB'000	Interest payable RMB'000	Liabilities to fund investors RMB'000	Lease liabilities RMB'000	Total RMB'000
Liabilities from financing activities as of January 1, 2021	6,961,937	10,634,806	94,505	9,364,533	879,879	27,935,660
Cash flows	(1,918,308)	11,145,650	(659,987)	3,471,000	(1,115,859)	10,922,496
Accrued interest expenses	—	—	712,133	2,057,133	91,954	2,861,220
Foreign exchange adjustments	86,687	(416,359)	—	—	—	(329,672)
Reclassification from non-current to current	736,512	(736,512)	—	—	—	—
Other non-cash movements	(339,778)	92,205	—	—	—	(247,573)
Acquisition — leases	—	—	—	—	3,425,180	3,425,180
Liabilities from financing activities as of December 31, 2021	5,527,050	20,719,790	146,651	14,892,666	3,281,154	44,567,311
Liabilities from financing activities as of January 1, 2020	12,836,555	4,786,856	78,959	3,074,210	960,248	21,736,828
Cash flows	(9,542,628)	13,339,443	(499,711)	3,398,000	(493,899)	6,201,205
Accrued interest expenses	—	—	515,257	2,892,323	—	3,407,580
Foreign exchange adjustments	(51,917)	(319,094)	—	—	—	(371,011)
Reclassification from non-current to current	5,361,428	(5,361,428)	—	—	—	—
Equity component of convertible bonds	—	(1,764,799)	—	—	—	(1,764,799)
Other non-cash movements	(1,641,501)	(46,172)	—	—	—	(1,687,673)
Acquisition — leases	—	—	—	—	413,530	413,530
Liabilities from financing activities as of December 31, 2020	6,961,937	10,634,806	94,505	9,364,533	879,879	27,935,660

37 Contingencies

On December 21, 2021, the Income Tax Department of India ("**Income Tax Department**") commenced an investigation on mobile phone manufacturing companies, including Xiaomi India, in relation to their compliance with relevant income tax regulations. As of the issuance date of this consolidated financial statements, as the investigation on Xiaomi India was still in progress, the Group has not received any communication on the findings of the investigation by the Income Tax Department. As such, the impact of any outcome, if any, is presently not ascertainable. As a result, as of December 31, 2021, the Group did not make any provisions for potential loss contingencies pertaining to this investigation. The management believes any impact to the financial position and results of operations as of and for the year ended December 31, 2021 would not be material.

On January 5, 2022, the Directorate of Revenue Intelligence of India ("**DRI**") issued notices ("**Notices**") to Xiaomi India for demand and recovery of duty amounting to Rs.653 crore (equivalent to approximately RMB560 million) owed for the period from April 1, 2017 to June 30, 2020. Xiaomi India is in the process of preparing responses to the Notices to the DRI. Based on external professional opinion, management assessed and concluded that the likelihood of material resource outflow as a result of the Notices is remote. As a result, as of December 31, 2021, the Group did not make any provisions for potential loss contingencies pertaining to this matter.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

38 Commitments

(a) Capital commitments

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Property and equipment	808,342	1,558,000
Intangible assets	1,312,398	33,437
Investments	717,909	529,026
	2,838,649	2,120,463

(b) Operating lease commitments

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

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Not later than 1 year	256,271	620,398
Later than 1 year and not later than 5 years	8,308	41,660
Later than 5 years	36,132	14,924
	300,711	676,982

From January 1, 2019, in accordance with IFRS 16 Lease, the Group has recognized right-of-use assets and lease liabilities for these leases, except for certain short-term leases above, see Note 17 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Business combination

(a) Step-up acquisition of Zimi

On July 5, 2021, the Company completed the acquisition of the remaining 50.09% equity interest of Zimi at a total consideration of approximately RMB1,461 million. Prior to the above acquisition, the Company held 49.91% equity interests of Zimi and accounted for as an associate. As a result, Zimi was accounted for as a subsidiary of the Group upon the completion of the transaction ("**Step-up Acquisition**"). The equity interests previously held under investment in an associate was accounted for a deemed disposal at its fair value and resulted in step up losses of approximately RMB409 million.

Goodwill of approximately RMB1,382 million was recognized as a result of the Step-up Acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from integration of the operations with the Group. None of the goodwill is expected to be deductible for income tax purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Business combination (continued)

(a) Step-up acquisition of Zimi (continued)

The following table summarises the purchase consideration, fair value of assets acquired and liabilities assumed recognized as at the acquisition date of Zimi.

	As of July 5, 2021 RMB'000
Total consideration:	
Cash consideration	1,140,445
Share consideration	187,427
Deemed consideration arising from the grant of RSUs on Zimi's existing share options	133,007
Fair value of the previously held interests	1,317,460
	2,778,339
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	904,332
Inventories	83,103
Trade receivables	400,970
Prepayments and other receivables	19,267
Cash and cash equivalents	164,448
Investments accounted for using the equity method	5,082
Property and equipment	24,587
Deferred income tax assets	13,767
Long-term investments measured at fair value through profit or loss	203,165
Other assets	359,551
Deferred income tax liabilities	(252,303)
Trade payables	(481,260)
Other payables and accruals	(48,513)
Total identifiable net assets:	1,396,196
Goodwill	1,382,143
	2,778,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

39 Business combination (continued)

(a) Step-up acquisition of Zimi (continued)

Note:

The Group's revenue for the year would be increased by not more than 3% and results for the year would not be materially different should the Step-up Acquisition have occurred on 1 January 2021.

The related transaction costs of the Step-up Acquisition are not material to the Group's consolidated financial statements.

For the period from the closing date to December 31, 2021, the revenue and the results contributed by Zimi were insignificant to the Group. The Group's revenue and results for the year would not be material different if the Step-up Acquisition had occurred on 1 January 2021.

(b) Deepmotion Tech Limited ("Deepmotion") acquisition

On September 22, 2021, the Group completed the acquisition of Deepmotion at a total consideration of approximately US$77.37 million (approximately RMB500,555,000), among which US$24.40 million (approximately RMB157,850,000) should be settled by cash. The remaining consideration of US$52.97 million (approximately RMB342,705,000) will be paid evenly in future 4 years by equivalent shares of the Company ("**Xiaomi Shares**") determined by reference to the average closing price of Xiaomi Shares for the last ten consecutive trading days prior to the fifth day of each delivery, but no later than August 31 of each year. All such amount is accounted for separately from the business combination and recognized as compensation cost in the post-acquisition period.

Upon closing, Deepmotion became a wholly-owned subsidiary of the Group. Deepmotion has technological and research and development capabilities in providing full software stack solutions including perception, localization, planning and control for advanced driver-assistance systems (ADAS) and automated driving applications, which can enhance the technological competitiveness of the Group's smart electric vehicle business.

Goodwill of RMB61,245,000 was recognized as a result of the Deepmotion acquisition. It was mainly attributable to the operating synergies and economies of scale expected to be derived from combining operations of the Group and Deepmotion. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table summarises the purchase consideration, fair value of assets acquired and liabilities assumed recognized as at the acquisition date of the Deepmotion.

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(Expressed in RMB unless otherwise indicated)

39 Business combination (continued)

(b) Deepmotion Tech Limited ("Deepmotion") acquisition (continued)

	As of September 22, 2021 RMB'000
Total consideration:	
Cash consideration	157,850
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Intangible assets	95,000
Cash and cash equivalents	5,335
Trade receivables	1,882
Prepayments and other receivables	2,380
Property and equipment	283
Other assets	6,076
Deferred income tax liabilities	(14,250)
Other payables and accruals	(101)
Total identifiable net assets:	96,605
Goodwill	61,245
	157,850

40 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 years presented. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Related party transactions (continued)

(a) Names and relationships with related parties

The following companies are related parties of the Group that had significant transactions and/or balances with the Group during the year.

Company	Relationship
Shunwei Ventures (Hong Kong) Ltd.	Associate of Lei Jun
1 more Inc. (Note (a))	Associate of the Group
Shanghai Imilab Technology Co.,Ltd. (Note 12(b))	Associate of the Group
Miaobo Software Technology (Shanghai) Co., Ltd. (Note 12(b))	Associate of the Group
Shanghai Kaco Industrial Co., Ltd. (Note (a))	Associate of the Group
70mai Co. (Note (a))	Associate of the Group
Hannto Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Runmi Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Chunmi Electronic Technology Co., Ltd. (Note 12(b))	Associate of the Group
Shanghai Longcheer Technology Co., Ltd. (Note 12(b))	Associate of the Group
Liesheng Technology (Dongguan) Co., Ltd. (Note (a))	Associate of the Group
Dongguan Yingsheng Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Foshan Yunmi Electrical Technology Co., Ltd. (Note 12(b))	Associate of the Group
Ninebot Limited (Note 12(b))	Associate of the Group
Beijing Yuemi Technology Co., Ltd. (Note 12(b))	Associate of the Group
Beijing SmartMi Electronic Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing iQIYI Science&Technology Co., Ltd. (Note 12(b))	Associate of the Group
Beijing Miiiw Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing KingSmith Technology Co., Ltd. (Note 12(b))	Associate of the Group
Beijing Kingsoft Cloud Network Technology Co., Ltd. (Note 12(b))	Associate of the Group
Nanjing Jiqidao Smart Technology Co., Ltd. (Note 12(b))	Associate of the Group
Nanchang Blackshark Technology Co., Ltd. (Note 12(b))	Associate of the Group
Nanchang Longcheer Technology Co., Ltd. (Note 12(b))	Associate of the Group
Tianjin HUALAI Technology Co., Ltd. (Note (a))	Associate of the Group
Ningbo Minij Trading Co., Ltd. (Note (a))	Associate of the Group
Ningbo Scishare Technology CO., Ltd. (Note (a))	Associate of the Group
Ningbo Lofans Home Appliance Co., Ltd. (Note (a))	Associate of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Related party transactions (continued)

(a) Names and relationships with related parties (continued)

Company	Relationship
Anhui Huami Information Technology Co., Ltd. (Note 12(b))	Associate of the Group
Beijing Fengmi Technology Co., Ltd. (Note (a))	Associate of the Group
QingHeXiaoBei (Wuxi) Inc. (Note (a))	Associate of the Group
LeXiu Technology (Hangzhou) Co., Ltd. (Note (a))	Associate of the Group
Jiangsu Zimi Electronic Technology Co., Ltd. (Note (b))	Associate of the Group
Zhejiang Hooeasy Smart Technology Co., Ltd. (Note (a))	Associate of the Group
Zhejiang Xingyue Electric Equipment Co., Ltd. (Note (a))	Associate of the Group
Luokeshidai Technology (Shenzhen) Co., Ltd. (Note 12(b))	Associate of the Group
SOOCAS Technology Co., Ltd. (Note 12(b))	Associate of the Group
Shenzhen Lumi Technology Co., Ltd. (Note (a))	Associate of the Group
Zhenshi Information Technology (Shanghai) Co., Ltd. (Note (a))	Associate of the Group
MiaoMiaoCe Technology (Beijing) Co., Ltd. (Note (a))	Associate of the Group
Zimi Communication Technology (Jiangsu) Co., Ltd. (Note (b))	Associate of the Group
Chunmi Technology (Wuhu) Co., Ltd. (Note 12(b))	Associate of the Group
Forewin FPC (Suzhou) CO., Ltd. (Note (a))	Associate of the Group
Dreame Technology (Tianjin) Ltd. (Note (a))	Associate of the Group
Qingdao Yeelink Information Technology Co., Ltd. (Note 12(b))	Associate of the Group
ChingMi (Beijing) Technology Co., Ltd. (Note 12(b))	Associate of the Group
PL-Mi (Shanghai) Co., Ltd. (Note 12(b))	Associate of the Group
Iriding (Xiamen) Technology Co., Ltd. (Note (a))	Associate of the Group
Longcheer Technology (Huizhou) Co., Ltd. (Note 12(b))	Associate of the Group
Shanghai HOTO Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Roborock (Note 12(b))	Associate of the Group
Chongqing Qianxing Technology Co,. Ltd. (Note (a))	Associate of the Group
Guangdong Chunmi Electrical Technology Co., Ltd. (Note 12(b))	Associate of the Group
Shanghai Xiaowei Cosmetics Co., Ltd. (Note (a))	Associate of the Group
Fengmi (Chongqing) Innovation Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing Shunzao Technology Co., Ltd. (Note (a))	Associate of the Group
Ningbo Careline Electric Appliance Co., Ltd. (Note (a))	Associate of the Group
Foshan Xiaoxian technology Co., Ltd. (Note 12(b))	Associate of the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Related party transactions (continued)

(a) Names and relationships with related parties (continued)

Company	Relationship
Zhuimi Technology (Suzhou) Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Accompany Technology CO., Ltd. (Note (a))	Associate of the Group
Shenzhen KolaMama Technology Co., Ltd. (Note 12(b))	Associate of the Group
Kun Shan Innowave Communication Technology Co., Ltd. (Note (a))	Associate of the Group
Xi'an Fengyu Information Technology Co., Ltd. (Note (a))	Associate of the Group
Shenzhen Pinlo Innovation Industrial Co., Ltd. (Note (a))	Associate of the Group
Iriding (Hong Kong) Technology Co., Ltd. (Note (a))	Associate of the Group
Beijing AIQI Technology Co., Ltd. (Note (a))	Associate of the Group
Chongqing Xiaomi Consumer Finance Co., Ltd. (Note 12(b))	Associate of the Group
Foshan Electric Fish Technology Co., Ltd. (Note (a))	Associate of the Group
Shanghai Huanmi Technology Co., Ltd. (Note 12(b))	Associate of the Group

Notes:

(a) The Group's investments were made in the form of ordinary shares with preferential rights or convertible redeemable preferred shares which are accounted as financial assets measured at fair value through profit or loss.

(b) On July 5, 2021, the Company completed the acquisition transaction of Zimi. As a result, these associates are accounted for as subsidiaries of the Group, see Note 39 for detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Related party transactions (continued)

(b) Significant transactions with related parties

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
(i) Sales of goods and services		
Associates of the Group	2,135,603	1,356,945
Associates of Lei Jun	5,814	3,619
	2,141,417	1,360,564
(ii) Purchases of goods and services		
Associates of the Group	46,244,157	37,204,257
Associates of Lei Jun	8,890	4,282
	46,253,047	37,208,539

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Related party transactions (continued)

(c) Year end balances with related parties

	As of December 31, 2021 RMB'000	2020 RMB'000
(i) Trade receivables from related parties		
Associates of the Group	283,520	234,741
Associates of Lei Jun	10,201	3,782
	293,721	238,523
(ii) Trade payables to related parties		
Associates of the Group	9,962,713	8,052,768
Associates of Lei Jun	164	1,494
	9,962,877	8,054,262
(iii) Other receivables from related parties		
Associates of the Group	497,770	335,788
Associates of Lei Jun	43,662	—
	541,432	335,788
(iv) Other payables to related parties		
Associates of the Group	351,001	397,540
Associates of Lei Jun	85,193	91,047
	436,194	488,587
(v) Prepayments		
Associates of the Group	150,553	206,310
(vi) Advance from customers		
Associates of the Group	28,643	986,340
Associates of the Lei Jun	4,956	3,040
	33,599	989,380

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

40 Related party transactions (continued)

(d) Loans to related parties

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Loans to associates:		
At the beginning of the year	11,197	37,802
Loans advanced	4,213	—
Loans repaid	(17,576)	(6,787)
Interest charged	—	16
Interest received	—	(81)
Less: credit loss allowance	4,126	(19,095)
Currency translation differences	(278)	(658)
At the end of the year	1,682	11,197

(e) Key management compensation

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Salaries	31,871	24,960
Discretionary bonuses	9,208	2,032
Share-based compensation	387,791	454,151
Employer's contribution to pension schedule	1,575	1,282
	430,445	482,425

41 Events after the reporting period

The Company repurchased 14,295,000 Class B ordinary shares of the Company during January 2022. The total considerations were approximately HK$261,332,614. And the shares repurchased were subsequently cancelled on March 11, 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

42 Financial position and reserve movement of the Company

(a) Financial position of the Company

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Assets		
Non-current assets		
Property and equipment	465	355
Investment in subsidiaries	29,543,762	26,186,571
Other assets	71	73
	29,544,298	26,186,999
Current assets		
Prepayments and other receivables	27,435,829	37,520,429
Cash and cash equivalents	272,458	4,594
	27,708,287	37,525,023
Total assets	57,252,585	63,712,022
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	407	409
Reserves (Note 42(b))	56,918,512	62,660,813
Total equity	56,918,919	62,661,222
Liabilities		
Current liabilities		
Other payables and accruals	333,666	106,819
Borrowings	—	943,981
	333,666	1,050,800
Total liabilities	333,666	1,050,800
Total equity and liabilities	57,252,585	63,712,022

The balance sheet of the Company was approved by the Board of Directors on March 22, 2022 and was signed on its behalf:

Lei Jun

Lin Bin

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

42 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2021	(36,224)	64,655,891	6,255,525	(538,591)	362,509	(9,764,214)	1,764,799	(38,882)	62,660,813
Purchase of own shares	(7,006,824)	–	–	–	–	–	–	–	(7,006,824)
Cancellation of shares	6,699,318	(6,699,313)	–	–	–	–	–	–	5
Release of ordinary shares from Share Scheme Trust	–	698,434	(682,802)	–	–	–	–	–	15,632
Employees share-based compensation scheme:									
– value of employee services (Note 29)	–	–	1,792,986	–	–	–	–	–	1,792,986
– exercise of share options and restricted stock units (Note 29)	–	649,543	(568,233)	–	–	–	–	–	81,310
Currency translation differences (Note (a))	–	–	–	(1,027,846)	–	–	–	–	(1,027,846)
Share of other comprehensive loss of investments accounted for using the equity method	–	–	–	–	–	–	–	(54,526)	(54,526)
Share of other reserves of investments accounted for using the equity method	–	–	–	–	91,718	–	–	–	91,718
Share consideration for acquisition of Zimi (Note 39(a))	–	413,071	–	–	(86,502)	–	–	–	326,569
Profit for the year	–	–	–	–	–	38,675	–	–	38,675
At December 31, 2021	(343,730)	59,717,626	6,797,476	(1,566,437)	367,725	(9,725,539)	1,764,799	(93,408)	56,918,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

42 Financial position and reserve movement of the Company (continued)

(b) Reserve movement of the Company (continued)

	Treasury shares RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Conversion option RMB'000	Others RMB'000	Total RMB'000
At January 1, 2020	(1,052,822)	43,578,836	6,240,223	1,494,065	25,950	(11,072,061)	–	9,392	39,223,583
Purchase of own shares	(454,872)	–	–	–	–	–	–	–	(454,872)
Cancellation of shares	1,345,663	(1,349,709)	–	–	–	–	–	–	(4,046)
Release of ordinary shares from Share Scheme Trust	125,807	687,235	(783,805)	–	–	–	–	–	29,237
Employees share-based compensation scheme:									
– value of employee services (Note 29)	–	–	1,978,446	–	–	–	–	–	1,978,446
– exercise of share options and restricted stock units (Note 29)	–	1,511,225	(1,179,339)	–	–	–	–	–	331,886
Currency translation differences (Note (a))	–	–	–	(2,032,656)	–	–	–	–	(2,032,656)
Share of other comprehensive loss of investments accounted for using the equity method	–	–	–	–	–	–	–	(43,501)	(43,501)
Share of other reserves of investments accounted for using the equity method	–	–	–	–	29,363	–	–	–	29,363
Transfer of share of other comprehensive income to profit or loss upon deemed disposal of an associate	–	–	–	–	–	–	–	(4,773)	(4,773)
Issuance of convertible bonds (Note 34(c))	–	–	–	–	–	–	1,764,799	–	1,764,799
Issuance of shares upon placement (Note 26(a))	–	19,907,920	–	–	–	–	–	–	19,907,920
Share consideration for acquisition of an associate	–	320,384	–	–	320,384	–	–	–	640,768
Others	–	–	–	–	(13,188)	–	–	–	(13,188)
Profit for the year	–	–	–	–	–	1,307,847	–	–	1,307,847
At December 31, 2020	(36,224)	64,655,891	6,255,525	(538,591)	362,509	(9,764,214)	1,764,799	(38,882)	62,660,813

Note:

(a) Foreign currency translation reserve represents the difference arising from the translation of the financial statements of the Company as its functional currency in US$, different from its presentation currency as RMB.

DEFINITIONS

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

"Beijing Wenmi"	Beijing Wenmi Culture Co., Ltd* (北京文米文化有限公司), a limited liability company established under the laws of mainland China on December 28, 2016 and our wholly-owned subsidiary
"Board"	the board of Directors
"CEO"	chief executive officer
"CFO"	chief financial officer
"CG Code"	the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules
"Class A Shares"	class A ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring weighted voting rights in the Company such that a holder of a Class A Share is entitled to ten votes per share on any resolution tabled at the Company's general meetings, save for resolutions with respect to any Reserved Matters, in which case they shall be entitled to one vote per share
"Class B Shares"	class B ordinary shares of the share capital of the Company with a par value of US$0.0000025 each, conferring a holder of a Class B Share one vote per share on any resolution tabled at the Company's general meetings
"Co-founder"	Hong Feng, Li Wanqiang, Lin Bin, Liu De, Wang Chuan, Wong Kong Kat and Zhou Guangping
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", or "the Company"	Xiaomi Corporation/小米集团 (formerly known as Top Elite Limited), a company with limited liability incorporated under the laws of the Cayman Islands on January 5, 2010

DEFINITIONS

"Compliance Advisor"	Guotai Junan Capital Limited, being the compliance advisor of the Company
"connected person(s)"	has the meaning ascribed to it in the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it in the Listing Rules
"Consolidated Affiliated Entities", each a "Consolidated Affiliated Entity"	the entities we control through the Contractual Arrangements, namely the Onshore Holdcos and their respective subsidiaries
"Contractual Arrangements"	the set of agreements that entered into by each of the WFOEs and the Onshore Holdcos for the purpose of operations of the Restricted Business of the Group in the PRC
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context otherwise requires, refers to Lei Jun and the directly and indirectly held companies through which Lei Jun has an 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
"IFRS"	International Financial Reporting Standard

"Latest Practicable Date"	April 8, 2022, being the latest practicable date prior to the bulk printing and publication of this annual report
"Listing"	the listing of the Class B Shares on the Main Board of the Stock Exchange
"Listing Date"	July 9, 2018, the date on which the Shares were listed on the Stock Exchange
"Listing Rules"	the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"Onshore Holdcos" each a "Onshore Holdco"	(i) Beijing Wali Culture, (ii) Rigo Design, (iii) Xiaomi Inc., (iv) Beijing Doukan, (v) Beijing Wali Internet, (vi) Xiaomi Pictures, (vii) Beijing Electronic Software and (viii) Youpin Information Technology
"Pinecone International"	Pinecone International Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands on November 7, 2014 and our indirect wholly-owned subsidiary
"Pinecone Share Option Scheme I"	the share option scheme adopted by Pinecone International on July 30, 2015 as amended from time to time
"Pinecone Share Option Scheme II"	the share option scheme adopted by Pinecone International on June 17, 2018 as amended from time to time
"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on June 17, 2018 as amended from time to time

DEFINITIONS

"PRC"	the People's Republic of China
"PRC Legal Advisor"	JunHe LLP
"Pre-IPO ESOP"	the pre-IPO employee stock incentive scheme adopted by the Company on May 5, 2011 and superseded on August 24, 2012 as amended from time to time
"Prospectus"	the prospectus of the Company dated June 25, 2018
"Registered Shareholders"	the registered shareholders of the Onshore Holdcos
"Reporting Period"	the year ended December 31, 2021
"Reserved Matters"	those matters resolutions with respect to which each Share is entitled to one vote at general meetings of the Company pursuant to the Articles of Association, being (i) any amendment to the Memorandum or Articles, including the variation of the rights attached to any class of shares, (ii) the appointment, election or removal of any independent non-executive Director, (iii) the appointment or removal of the Company's auditors, and (iv) the voluntary liquidation or winding-up of the Company
"Rigo Design"	Rigo Design (Beijing) Co., Ltd.* (美卓軟件設計(北京)有限公司), a limited liability company established under the laws of mainland China on April 24, 2012 and our Consolidated Affiliated Entity
"RMB" or "Renminbi"	Renminbi, the lawful currency of mainland China
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share Award Scheme"	the share award scheme adopted by the Company on June 17, 2018

"Share(s)"	the Class A Shares and/or Class B Shares in the share capital of the Company, as the context so requires
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it in section 15 of the Companies Ordinance
"substantial shareholder"	has the meaning ascribed to it in the Listing Rules
"Tianjin Commercial Factoring"	Xiaomi Commercial Factoring (Tianjin) Co., Ltd* (小米商業保理(天津)有限責任公司), a limited liability company established under the laws of mainland China on March 21, 2018 and our indirect wholly-owned subsidiary
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$"	United States dollars, the lawful currency of the United States
"weighted voting rights" or "WVR"	has the meaning ascribed to it in the Listing Rules
"WFOEs", each a "WFOE"	Beijing Baien, Xiaomi Mobile Software, Beijing Wenmi, Beijing Digital Technology, Tianjin Commercial Factoring, Beijing Wali, Xiaomi Communications and Xiaomi Youpin Technology
"WVR Beneficiary"	has the meaning ascribed to it in the Listing Rules
"Xiaomi Communications"	Xiaomi Communications Co., Ltd* (小米通訊技術有限公司), a limited liability company established under the laws of mainland China on August 25, 2010 and our indirect wholly-owned subsidiary

DEFINITIONS

"Xiaomi EV"	Xiaomi EV, Inc., an exempted company incorporated under the laws of the Cayman Islands with limited liability and a direct wholly-owned Subsidiary of the Company
"Xiaomi EV Share Option Scheme"	the share option scheme adopted by Xiaomi EV on October 25, 2021
"Xiaomi Finance"	Xiaomi Finance Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands on February 15, 2018 and our direct wholly-owned subsidiary
"Xiaomi Finance Group"	Xiaomi Finance and its subsidiaries and consolidated affiliated entities from time to time
"Xiaomi Inc."	Xiaomi Inc.* (小米科技有限責任公司), a limited liability company established under the laws of mainland china on March 3, 2010 and our Consolidated Affiliated Entity
"Xiaomi Pictures"	Xiaomi Pictures Co., Ltd.* (小米影業有限責任公司), a limited liability company established under the laws of mainland China on June 7, 2016 and our Consolidated Affiliated Entity
"Xiaomi Youpin Technology"	Xiaomi Youpin Technology Co. Ltd.* (小米有品科技有限公司), a limited liability company established under the laws of mainland China on May 8, 2018 and our indirect wholly-owned subsidiary
"XMF Share Option Scheme I"	the first share option scheme adopted by Xiaomi Finance on June 17, 2018, as amended from time to time
"XMF Share Option Scheme II"	the second share option scheme adopted by Xiaomi Finance on June 17, 2018
"XM Group"	our Group other than the Xiaomi Finance Group
"Youpin Information Technology"	Youpin Information Technology Co., Ltd.*(有品信息科技有限公司), a limited liability company established under the laws of mainland China on April 4. 2018 and our Consolidated Affiliated Entity
"%"	per cent

* For identification purposes only.

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