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XIAOMI CORPORATION

小米集团

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

(Stock Code: 1810)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

The board (the “**Board**”) of directors (the “**Directors**”) of Xiaomi Corporation 小米集团 (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2021 (the “**Reporting Period**”). The consolidated financial statements for the Reporting Period have been audited by PricewaterhouseCoopers, the independent auditor of the Company (the “**Auditor**”) in accordance with International Standards on Auditing. The results have also been reviewed by the audit committee of the Company (the “**Audit Committee**”).

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

KEY HIGHLIGHTS

	Unaudited		
	Three months ended		
	December 31,	December 31,	Year-over-
	2021	2020	year change
	(Renminbi (“RMB”) in millions, unless specified)		
Revenue	85,575.2	70,462.9	21.4%
Gross profit	14,659.5	11,326.3	29.4%
Operating profit	4,415.6	9,601.9	-54.0%
Profit before income tax	3,884.5	8,860.9	-56.2%
Profit for the period	2,442.5	8,795.0	-72.2%
Non-IFRS Measure: Adjusted Net Profit	4,473.1	3,204.4	39.6%

	Year ended December 31,		
	2021	2020	Year-over- year change
	(RMB in millions, unless specified)		
Revenue	328,309.1	245,865.6	33.5%
Gross Profit	58,260.9	36,751.8	58.5%
Operating Profit	26,028.6	24,034.7	8.3%
Profit before income tax	24,417.0	21,633.4	12.9%
Profit for the year	19,283.2	20,312.7	-5.1%
Non-IFRS Measure: Adjusted Net Profit	22,039.5	13,006.4	69.5%

BUSINESS REVIEW AND OUTLOOK

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. In the fourth quarter of 2021, our total revenue reached RMB85.6 billion, an increase of 21.4% year-over-year; adjusted net profit was RMB4.5 billion, an increase of 39.6% 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 MAUs 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. 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.

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 mainland China, 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 the fourth quarter and full year 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%. In the fourth quarter of 2021, our smartphone revenue reached RMB50.5 billion, an increase of 18.4% year-over-year, and our global smartphone shipments reached 44.1 million units, an increase of 4.4% year-over-year. According to Canalys, in the fourth quarter of 2021, our global smartphone market share ranked No. 3 with a market share of 12.5%.

We continued to execute our dual-brand strategy. Under the Xiaomi brand, we unveiled the *Xiaomi 12 series*¹ in mainland China in December 2021. The launch of *Xiaomi 12* and *Xiaomi 12 Pro* is the first time we introduced dual premium models with different screen sizes, and both come equipped with Qualcomm’s Snapdragon 8 Gen 1 Mobile Platform processor. According to third-party data, in January 2022, the first month after launch, shipments of *Xiaomi 12* and *Xiaomi 12 Pro* exceeded the combined shipments of all other smartphone brands also 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. Boasting 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. In February 2022, we unveiled *Redmi K50G* to target gaming enthusiasts. Equipped with the Qualcomm Snapdragon 8 Gen 1 Mobile Platform processor, this model offer users a truly satisfying gaming experience in terms of performance, heat dissipation, fast charging, display quality, and sound and vibration effects. At the same time, we launched the *Redmi K50G Mercedes-AMG Petronas Formula One Team Edition*, boasting a highly recognizable and unique design. Within the first minute of launch, sales of the *Redmi K50G* and the *Redmi K50G Mercedes-AMG Petronas Formula One Team Edition* exceeded RMB280 million. In March 2022, we launched *Redmi K50* and *Redmi K50 Pro*. *Redmi K50 Pro* is equipped with MediaTek’s Dimensity 9000 processor using TSMC’s advanced 4nm technology and features 2K ultra-clear screen and 120W fast-charging. It is also equipped with our self-developed charging chip *Surge P1* and a 100MP optical image stabilization (“**OIS**”) camera. Priced starting from RMB2,999, *Redmi K50 Pro* continues to 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 the fourth quarter of 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 Ranking among New Android Smartphone Models Launched in December” for mainland China², *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 the fourth quarter of 2021, revenue from IoT and lifestyle products amounted to RMB25.1 billion, an increase of 19.1% year-over-year.

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

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

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. In the fourth quarter of 2021, our global smart TV shipments reached 4.2 million units. 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 March 2022, we launched our first 100-inch ultra-large screen TV, *Redmi MAX 100*”, with dual 120Hz high refresh rate and support for Dolby Vision and Dolby Atmos, comprehensively upgrading 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. 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 the fourth quarter of 2021. According to IDC Quarterly Wearable Device Tracker (2021Q4), our TWS earbud shipments ranked No. 2 globally and No. 1 in mainland China in the fourth quarter of 2021.

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.

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. In the fourth quarter of 2021, internet services revenue reached RMB7.3 billion, growing 17.7% year-over-year, and the gross profit margin of our internet services reached 76.1%, a quarterly high.

In 2021, 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 the fourth quarter. 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 MAUs of MIUI globally in 2021, including 18.9 million users in mainland China. Meanwhile, our TV internet user base also maintained solid growth. In December 2021, MAU of our smart TV³ 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 expanding user base, the higher proportion of premium smartphones, and stronger monetization capabilities. In the fourth quarter of 2021, our advertising revenue amounted to RMB4.9 billion, a year-over-year increase of 34.0%, mainly due to growth in global pre-installation revenue and overseas revenue, while performance-based and brand advertising revenue continued to grow despite industry uncertainty.

In the fourth quarter of 2021, gaming revenue was RMB0.9 billion, an increase of 9.5% year-over-year. 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. In the fourth quarter of 2021, our revenue from overseas markets reached RMB41.6 billion, an increase of 23.4% year-over-year and accounting for 48.7% 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% 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 mainland China, 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.

³ including *Xiaomi Box* and *Xiaomi TV Stick*

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 markets⁴ 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 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.

⁴ excluding India, Sri Lanka, Nepal and Bangladesh

Research and development investment

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

Since announcing our plan to enter the smart electric vehicle business in March 2021, 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 continue to expect mass production to officially begin in the first half of 2024.

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 are committed to building a safe and reliable IoT ecosystem. 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.

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.

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.)

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

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,		2020	
	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	<u>328,309.1</u>	<u>100.0%</u>	<u>245,865.6</u>	<u>100.0%</u>

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 proportion 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	<u>270,048.2</u>	<u>82.3%</u>	<u>209,113.8</u>	<u>85.1%</u>

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.

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.

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.

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,	December 31,
	2021	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

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, 2020	
	December 31, 2021	December 31, 2021	December 31, 2020	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	<u>85,575.2</u>	<u>100.0%</u>	<u>70,462.9</u>	<u>100.0%</u>

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 proportion 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	<u>70,915.7</u>	<u>82.9%</u>	<u>59,136.6</u>	<u>83.9%</u>

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.

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,	September 30,
	2021	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

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			
	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	<u>85,575.2</u>	<u>100.0%</u>	<u>78,062.9</u>	<u>100.0%</u>

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 proportion 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	<u>70,915.7</u>	<u>82.9%</u>	<u>63,770.6</u>	<u>81.7%</u>

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.

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 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.

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

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

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

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			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⁾		
(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

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			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⁾		
(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

	As reported	Share-based compensation	Adjustments			Income tax effects ⁽⁴⁾	Non-IFRS
			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⁾		
(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%

Year Ended December 31, 2021

	Adjustments						Non-IFRS
	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⁾	
	(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						Non-IFRS
	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⁾	
	(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 rate¹ = 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 places 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.

Issuance of Debt Securities

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

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

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

Consolidated Statement of Cash Flows

	Unaudited	
	Three months ended	
	December 31,	September 30,
	2021	2021
	(RMB in millions)	
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)
	23,511.6	32,649.5
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 announcement.

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.

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
	(RMB in millions)	
Capital expenditures	2,010.3	3,330.1
Placement of long-term investments ⁽¹⁾	2,592.2	5,534.5
Total	<u>4,602.5</u>	<u>8,864.6</u>

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.

Significant Investments

The Group did not make or hold any significant investments (including any investment in an investee company with a value of 5 percent or more of the Group's total assets as of 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.

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.

Foreign Exchange Risk

The transactions of our Company are denominated and settled in our functional currency, the United States dollar. Our Group's subsidiaries primarily operate in the People's Republic of China (the "PRC") and other regions such as India, and are exposed to foreign exchange risk arising from various currencies exposures, primarily with respect to the United States dollar. Therefore, foreign exchange risk primarily 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.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2021

(Expressed in Renminbi (“RMB”))

	Note	Year ended December 31,	
		2021	2020
		RMB'000	RMB'000
Revenue	2	328,309,145	245,865,633
Cost of sales	2, 3	(270,048,204)	(209,113,771)
Gross profit		58,260,941	36,751,862
Research and development expenses	3	(13,167,088)	(9,256,139)
Selling and marketing expenses	3	(20,980,765)	(14,539,400)
Administrative expenses	3	(4,738,919)	(3,746,449)
Fair value changes on investments measured at fair value through profit or loss	6	8,132,133	13,173,479
Share of net profits of investments accounted for using the equity method		275,013	1,380,904
Other income		826,856	642,930
Other losses, net		(2,579,507)	(372,458)
Operating profit		26,028,664	24,034,729
Finance income		1,229,826	963,555
Finance costs		(2,841,457)	(3,364,852)
Profit before income tax		24,417,033	21,633,432
Income tax expenses	4	(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):	5		
Basic		0.78	0.85
Diluted		0.76	0.83

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2021

(Expressed in RMB)

	Note	Year ended December 31,	
		2021	2020
		RMB'000	RMB'000
Profit for the year		19,283,235	20,312,710
Other comprehensive loss:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Share of other comprehensive loss of investments accounted for using the equity method		(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)
<i>Item that will not be reclassified subsequently to profit or loss</i>			
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

CONSOLIDATED BALANCE SHEET

As of December 31, 2021

(Expressed in RMB)

		As of December 31,	
	Note	2021	2020
		RMB'000	RMB'000
Assets			
Non-current assets			
Property and equipment		6,964,621	6,305,657
Intangible assets		5,579,159	4,265,619
Investments accounted for using the equity method		10,230,751	12,781,995
Long-term investments measured at fair value through profit or loss	6	50,113,702	35,215,319
Deferred income tax assets		1,661,947	2,011,072
Long-term bank deposits		16,195,419	9,608,677
Long-term investments measured at amortized cost	6	351,362	232,798
Other non-current assets		15,943,508	6,975,851
		107,040,469	77,396,988
Current assets			
Inventories	8	52,397,946	41,670,719
Trade receivables	7	17,985,503	10,161,019
Loan receivables		5,109,034	8,919,088
Prepayments and other receivables		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	6	710,865	797,456
Short-term investments measured at amortized cost	6	1,597,919	—
Short-term investments measured at fair value through profit or loss	6	29,311,848	22,376,387
Short-term bank deposits		31,041,129	17,598,946
Restricted cash		4,319,661	3,625,257
Cash and cash equivalents		23,511,579	54,752,443
		185,851,401	176,282,835
Total assets		292,891,870	253,679,823

	Note	As of December 31,	
		2021	2020
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		407	409
Reserves		<u>137,212,499</u>	<u>123,691,287</u>
		<u>137,212,906</u>	<u>123,691,696</u>
Non-controlling interests		<u>219,590</u>	<u>321,819</u>
Total equity		<u><u>137,432,496</u></u>	<u><u>124,013,515</u></u>
Liabilities			
Non-current liabilities			
Borrowings	9	20,719,790	10,634,806
Deferred income tax liabilities		1,202,717	300,556
Warranty provision		895,747	802,590
Other non-current liabilities		<u>16,913,649</u>	<u>10,001,428</u>
		<u>39,731,903</u>	<u>21,739,380</u>
Current liabilities			
Trade payables	10	74,643,005	72,198,856
Other payables and accruals		20,224,499	13,619,655
Advance from customers		9,289,177	11,999,086
Borrowings	9	5,527,050	6,961,937
Income tax liabilities		2,335,124	674,298
Warranty provision		<u>3,708,616</u>	<u>2,473,096</u>
		<u>115,727,471</u>	<u>107,926,928</u>
Total liabilities		<u><u>155,459,374</u></u>	<u><u>129,666,308</u></u>
Total equity and liabilities		<u><u>292,891,870</u></u>	<u><u>253,679,823</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2021

(Expressed in RMB)

	Year ended December 31,	
	2021	2020
	RMB'000	RMB'000
Net cash generated from operating activities	9,785,288	21,878,500
Net cash used in investing activities	(45,007,945)	(17,678,852)
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 period	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 end of the period	23,511,579	54,752,443

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.

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.

(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 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.

The segment results for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31, 2021				
	Smartphones	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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	IoT and lifestyle products	Internet services	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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.

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
	<u>328,309,145</u>		<u>245,865,633</u>	

Note:

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

3 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	2,831,529	3,688,809
Employee benefit expenses	13,821,526	9,914,453
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
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

4 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	998,500	(1,007,003)
Income tax expenses	<u>5,133,798</u>	<u>1,320,722</u>

5 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

(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 restricted shares units ("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 International Incorporation ("Zimi") (thousand shares)	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

6 Investments

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Current assets		
Short-term investments measured at		
— Amortized cost	1,597,919	—
— Fair value through other comprehensive income	710,865	797,456
— Fair value through profit or loss	29,311,848	22,376,387
	<u>31,620,632</u>	<u>23,173,843</u>
Non-current assets		
Long-term investments measured at amortized cost	351,362	232,798
Long-term investments measured at fair value through profit or loss		
— Ordinary shares investments	22,755,228	13,969,457
— Preferred shares investments	25,108,840	20,913,568
— Other investments	2,249,634	332,294
	<u>50,465,064</u>	<u>35,448,117</u>

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
	<u>8,132,133</u>	<u>13,173,479</u>

7 Trade receivables

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

	As of 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
	<u>18,149,480</u>	<u>10,361,779</u>
Less: credit loss allowance	(163,977)	(200,760)
	<u>17,985,503</u>	<u>10,161,019</u>

8 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
	<u>53,729,093</u>	<u>42,896,431</u>
Less: provision for impairment	(1,331,147)	(1,225,712)
	<u>52,397,946</u>	<u>41,670,719</u>

9 Borrowings

	As of December 31,	
	2021	2020
	RMB'000	RMB'000
Included in non-current liabilities		
Asset-backed securities	—	465,000
Secured borrowings	1,576,761	1,594,936
Unsecured borrowings	15,004,487	4,530,856
Convertible bonds	4,138,542	4,044,014
	<u>20,719,790</u>	<u>10,634,806</u>
Included in current liabilities		
Asset-backed securities	—	3,589,629
Fund raised through trusts	—	547,500
Secured borrowings	507,217	460,257
Unsecured borrowings	5,019,833	2,364,551
	<u>5,527,050</u>	<u>6,961,937</u>

10 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 India Rupees.

Trade payables and their ageing 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
	<u>74,643,005</u>	<u>72,198,856</u>

11 Dividends

No dividends have been paid or declared by the Company during the years ended December 31, 2021 and 2020.

12 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.

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
	<u>2,778,339</u>
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)
	<u>1,396,196</u>
Total identifiable net assets:	1,396,196
Goodwill	1,382,143
	<u>2,778,339</u>

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 RMB 157,850,000) 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.

	As of September 22, 2021 RMB’000
Total consideration:	
Cash consideration	<u><u>157,850</u></u>
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	<u>(101)</u>
Total identifiable net assets:	96,605
Goodwill	<u><u>61,245</u></u>
	<u><u>157,850</u></u>

13 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 date of this announcement, as the investigation on Xiaomi India was still in progress, the Group has not received any notice 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.

OTHER INFORMATION

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

During the Reporting Period and up to the date of the announcement, the Company repurchased a total of 357,813,400 Class B Shares (the “**Shares Repurchased**”) of the Company on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) at an aggregate consideration of approximately HK\$8,677,976,089. Particulars of the Shares Repurchased are as follows:

Month of Repurchase	No. of Shares Repurchased	Price paid per share		Aggregate Consideration (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
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
Total	<u>357,813,400</u>			<u>8,677,976,089</u>

As at the date of this announcement, the number of Class B Shares in issue was reduced by 357,813,400 as a result of the cancellation of the Shares Repurchased. Upon cancellation of the Shares Repurchased, the weighted voting rights (“**WVR**”) beneficiaries of the Company, simultaneously reduced their WVR in the Company proportionately by way of converting their Class A ordinary shares (“**Class A Shares**”) into Class B Shares on a one-to-one ratio pursuant to 8A.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), such that the proportion of shares carrying WVR of the Company shall not be increased, pursuant to the requirements under 8A.13 and 8A.15 of the Listing Rules.

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 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 date of this announcement.

Compliance with the Corporate Governance Code

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

Save for code provision C.2.1 of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules, the Company has complied with all the code provisions set out in the CG Code throughout the Reporting Period.

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 Mr. Lei Jun currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enabling more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider segregating the roles of chairman of the Board and chief executive officer of the Company at an appropriate time, taking into account the circumstances of the Group as a whole.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules the code of conduct regarding the Directors' dealings in the securities of the Company. Having made specific enquiries of all the Directors, all the Directors confirmed that they have complied with the provisions of the Model Code during the Reporting Period and up to the date of this announcement.

Audit Committee

The Audit Committee (comprising one non-executive Director and two independent non-executive Directors, namely, Mr. Liu Qin, Dr. Chen Dongsheng and Mr. Wong Shun Tak) has reviewed the audited consolidated financial statements of the Group for the Reporting Period. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the Auditor.

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and the related notes thereto for the Reporting Period as set out in this announcement have been agreed by the Auditor to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by the Auditor on this announcement.

Material Litigation

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

Use of Net Proceeds

1. Use of Net Proceeds from Issue of the 2030 Notes

The net proceeds received by the Company from the 2030 Notes were approximately US\$ 589.9 million. The Company intends to use the net proceeds of the 2030 Notes primarily for (i) general corporate purposes and (ii) to repay existing borrowings. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated April 20, 2020.

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

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

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

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

4. Use of Net Proceeds from Issue of the 2031 Bonds and Green Bonds

The net proceeds received by the Company from the 2031 Bonds were approximately US\$789.0 million. The Group intends to use these proceeds for general corporate purposes. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated July 8, 2021.

The net proceeds received by the Company from the Green Bonds were approximately US\$392.8 million. The Group intends to use these proceeds or an equivalent amount thereof for financing or refinancing, in whole or in part, one or more of the Group's new or existing eligible projects pursuant to the Group's Green Finance Framework. There has been no change in the intended use of net proceeds as previously disclosed in the announcement dated July 8, 2021.

Final Dividend

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

Events after the End of the Reporting Period

Save as disclosed in this announcement, 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 announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By order of the Board
Xiaomi Corporation
Lei Jun
Chairman

Hong Kong, March 22, 2022

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